Audit Committee Expertise and Earnings Management of Quoted Food and Beverages Firms in Nigeria

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Abstract
This study investigated the impact of audit committee expertise and earnings management practices of quoted food & beverages manufacturing firms in Nigeria. Secondary data were collected from the annual reports of 15 sampled firms using convenience sampling methodology which was mostly dictated by data availability. The study period covered 2006 to 2016. Earnings management was measured by discretionary accruals, using modified Jones (1991) model. Time series data was used to estimate discretionary accrual for each respective sampled firm as at 2016 financial year-end. Ordinary Least Square based regression was then applied on the cross-sectional estimates of the discretionary accruals, taking cross-section of audit committee quality dimensions (i.e. committee expertise, committee size and meeting frequency) as independent variables. Firm size was used as the contextual variable, which was measured by natural logarithm of tangible non-current assets value. It was found out that committee size was redundant due to constancy of data points, meeting frequency failed the test of statistical significance at 5% level, while the relationship between committee expertise and earnings management was not only significant at 5% level, but a negative coefficient of 1.5 17 was observed. Also, firm size yielded a positive coefficient of 0.906. It is therefore concluded that audit committee expertise, in terms of committee expertise can restrain earnings management practices of quoted food & beverages manufacturing firms in Nigeria, and that the larger a firm gets, the greater the tendency of its managers to manage earnings. In line with the findings, it is recommended that the current practice of uniform audit committee membership qualification requirement should be reviewed, and also, peer review• mechanism of audit committees in the same industry should be encouraged and implemented vigorously and be used as a platform to set benchmarks for effective monitoring.

Key Words: *Audit committee expertise, earnings management practices, Food and Beverages Firms*

Introduction

The importance of financial statement to investors and financial regulators cannot be over emphasized. Financial statement serves as a guide for decision-making. It reveals the financial strength and performance of a firm. To ensure its integrity, the audit committee was enacted as a monitoring mechanism to oversee the entire process of financial reporting and disclosure. The need for instituting an audit committee was further justified with the involvement of ENRON, Oceanic bank PLC and WorldCom in corporate frauds. However, a review of previous literatures revealed that, in spite of the audit committee, earnings management remains a tool effectively used by management to manipulate earnings and profitability. This has made stakeholders and researchers to question the efficacy of the audit committee in preventing corporate fraud occasioned by earnings management. Previous literatures have had conflicting findings in establishing the link between audit committee quality and earnings management. Kuang and Sharma (2013) and Lin *et al.,* (2006) found a negative relationship between audit committee and earnings quality. Also, Nelson and Jamil (2012) found no relationship between audit committee and earnings quality. Yet some studies that examined the relationship between audit committee and earnings management revealed inconclusive results; Zaman *et al.,* (2011). Additionally, most studies carried out in this area were conducted before the corporate governance code 2011 as amended, and as such may differ in findings. Most studies were carried out mainly focusing on developed countries. Underdeveloped countries with weaker financial structures and systems are more susceptible to corporate frauds. To that effect, it is my interest to comprehensively explore further, the potency of audit committee in combating the practice of earnings management in quoted food and beverages firms in Nigeria; using audit committee expertise, audit committee size and audit committee meeting as proxy for audit committee quality and discretionary accruals as proxy for earnings management.

The rising need to meet expectations of Stakeholders and Financial Regulators spur Management to indulge in the practice of Earnings Management. Earnings Management is a deceptive tool used by management to falsify earnings report in the financial statement, which gives an untrue reflection of the firm's financial strength and performance. This unethical practice is not in the best interest of stakeholders. According to Siddharth (2011), earnings management is a deliberate manipulation of the financial information, so that they appear to be permissible under the Generally Accepted Accounting Principles, (GAAP). Financial reporting is a fundamental corporate responsibility and a key element of the corporate system.

Earnings management can be defined as the manipulation of reported earnings, by using specific accounting methods or changing methods, recognizing one-time, non-current items, deferring or increasing expenses or revenue transactions, or using other methods designed to influence short term earnings (Rahman, Muniruzzaman & Sharif 2013). Earnings management is a worldwide phenomenon which has given rise to corporate scandals. Fodio *et al.,* (2013), corporations around the world have experienced the negative effects of this ill practice. In 1998, a Houston based traded waste management company reported fake earnings of 1.7 billion dollars. Also, in 2001, ENRON was involved in a scandal for falsifying their accounts, as a result, shareholders lost 74 billion dollars, thousands of employees and investors lost their retirement accounts and many employees lost their jobs. ENRON subsequently filed for bankruptcy. In Nigeria, some banks and corporations have been involved in corporate scandals. Oceanic bank Plc, Intercontinental bank Plc and Afribank Plc are some of the examples of corporate frauds. Earnings management reduces the credibility and reliability of financial statements. Information asymmetry obstructs the effectiveness of financial markets and as a result, investors and financial regulators find it difficult to uphold the integrity of financial reports.

Abdul Rauf *et al.,* (2012), suggest that management could use earnings management to mislead shareholders, by showing a different reflection of the firm's earnings. For earnings to maintain its integrity, it is paramount, that ways of ensuring the reliability of reported earnings are created. With the aim of preventing earnings management and corporate scandals, some corporate governance codes have been put in place. The Security and

Exchange Commission Code (SEC), 2011 as amended is one of the corporate governance codes. SEC, 2011 was enacted on 1st April, it replaced SEC, code of 2003; its main purpose is to objectively ensure that companies are well managed and to ensure that standards, accountability and transparency are achieved. Shortly after, the Financial Reporting Council (FRC), a replacement of Nigerian Accounting Standard Board (NASB), came into being. In June 2011, FRC Act no. 6, 2011 was enacted, with the mandate to ensure accuracy and reliability of financial reports and disclosures, to monitor the activities of financial regulatory bodies and ensure the highest standards in financial reporting process. The Sarbane Oxley Act (SOX), 2002 was equally institutionalized in America, to protect investors from accounting frauds. The Act is a deliberate effort to mandate strict reforms on how corporations make financial disclosures, regarding the financial state of the firm, particularly on earnings and profitability. To increase investors' confidence in financial reporting quality, firms need to adopt effective monitoring mechanisms. Faiza and Saleem (2016), one of these monitoring mechanisms is the Audit Committee.

Studies have been conducted on the role of audit committee in monitoring management (Nelson & Jamil, 2012). These studies provide different opinions on the direction of their association. The outcome of the studies, which are mostly conducted in developed nations, resulted in more studies in this area, in order to investigate whether audit Committee quality can reduce earnings management. This is because despite the attention given by investors and regulators to corporate failures, earnings management is still prevalent. It is therefore my interest to delve into this field of study to further expand knowledge of this ill practice, which would resultantly add to the value of already existing literatures. The focal point of this study is to investigate the impact of Audit Committee Expertise on Earnings Management of Quoted Manufacturing Firms in Nigeria. For the purpose of this study, the manufacturing firms in view are Quoted Food and Beverages Firms in Nigeria. The period of study of their financial statement is from 2006 to 2016 (10 years).

Literature Review

Theoretical Foundation

Agency Theory

This study adopted agency theory to explain the relationship between audit committee and earnings management of listed Food and Beverages Firms in Nigeria. Agency theory originated from the work of Berle and Means (1932). They explored the concept of agency and the applications toward the development of large corporations. They found out how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency- principal to explain the genesis of those conflicts.

Jensen and Meckling (1976), further on the work of Berle and Means (1932) developed agency theory as a formal concept. They also formed a school of thought arguing that corporations are structured to minimize the costs of getting agents (agency costs), to follow the direction and interests of the principals. The theory essentially acknowledges that different parties involved in a given situation with same given goal will have different motivations, and these differences can manifest in diverse ways. This means that there will always be partial goal conflict among parties, because efficiency is inseparable from effectiveness, and thus information will always be somewhat asymmetric between principal and agent. Agency theory is therefore concerned with contractual relationship between two or more persons called the agent(s) to perform some services on behalf of the principal. Both the agents and the principal are presumed to have entered into mutual agreement or contract motivated solely by self-interest. The principal delegates decision making responsibility to the agents (Chowdhury, 2004). It is a concept that explains why behaviour or decisions vary when exhibited by members of a group. Specifically, it describes the relationship between one party called the principal who delegates work to another called the agent. It explains their differences in behaviour or decisions by noting the two parties often have different goals and are independent of their respective goals and they have different attitudes toward risk. Invariably, the agents‟ decision and choices are assumed to have effect on both parties. These relationships, according to Bromwich (1992), are perceived in economic and business life and also generate more problems of contracting between entities in the economy. This means that there is a contractual relationship between shareholders and directors and audit committee and shareholders or between audit committee and external auditors.

Considering earnings management practice, agency theory explains clearly the existence of the incentive for management to use earnings management. Therefore, Salah (2010) (in Abdul Rauf *et al.*, 2012) suggests that, management could use earnings to mislead shareholders by showing a different image of the company's earnings. Additionally, Sun and Rath (2008) pointed out that earnings management may arise as a result of information asymmetry or problem of agency conflicts that occur when equity ownership is separated from day to day operation of the corporation and managers have a comparative information advantage over shareholders and that this market imperfections create an environment for managers to engage in accounting discretion in order to promote their selfish interest at the expense of shareholders. At the same time, they also create an opportunity for managers to use that accounting discretion to communicate their companies‟ performance related information in appropriate manner with investors (Trueman & Titman, 1988).

Audit Committee Expertise

This concerns the profound knowledge of the committee members in financial accounting and other related accounting skills to enable them carryout their work effectively. Accounting or financial expertise are attributes/qualifications or experience acquired by a person before becoming a board member of a company. Previous studies support the existence of relationships between accounting expertise and the quality financial reporting. Carcello *et al.*, (2006) document that a reduction in the use of discretionary accruals and income-increasing accruals occurs when an accounting expert is on the audit committee (Bedard *et al.*, 2004) and when firms have at least one general financial expert on their audit committee. Also, (Xie *et al.*, 2003) suggest that audit committee members need the financial sophistication necessary for curtailing the tendency of managers to engage in earnings management practices. Further, Krishnan and Visvanathan (2007) argue that a positive association exists between accounting expertise and the ratio of audit committee members. Hence, a greater number of members with financial expertise on the audit committee reduces the level of fraudulent practices and strengthens internal control processes

Earnings Management

There is no consensus on the concept of earnings management. This is because different scholars define earnings management in different perspectives. To begin with, Schipper (1989) defined earnings management as "a purposeful intervention in the external financial reporting process with intent of obtaining some private gain". Roman (2009) opined that "earnings management occurs when management has the opportunity to make accounting decisions that change reported income and exploit those opportunities". Additionally, Healy and Wahlen (1999) indicated that "earnings management occurs when managers use judgment in financial reporting and in structuring transaction to alter financial report either to mislead some stakeholders about the underlying economic performance of the company or influence contractual outcomes that depends on reported accounting numbers". On the other hand, Certified Fraud Examiners (1993) described earnings management as "the deliberate misrepresentation of the financial condition of an enterprise accomplished through intentional misstatement or omission of amounts or disclosure in the financial statement to deceive financial statement users".

In another perspective, Levitt (1998) defined earnings management as a grey area where the accounting is being perverted; with managers cutting corners and where earnings reports reflect the desires of management rather than the underlying financial performance of the company. More recently, Rahman *et al.*, (2013) defined earnings management as "reasonable and legal management decision making and reporting, intended to achieve stable and predictable financial results". This definition may be proved wrong when considering ethical practices or conventions in accounting. Looking at the materiality, it states that an item will be considered material if its omission or misstatement could distort the financial statement thereby influencing the economic decisions of users which was taken on the basis of such information. X-raying the global accounting setters, the Financial Accounting Standard Board (FASB) defined materiality in financial accounting concepts statement no 2, as the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it possible that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

Several presentations on earnings management also use the term in connection with managerial discretion that has the aim to communicate information to investors that are supposedly not opportunistic (Dechow & Skinner, 2000), and further stated that the clear definition of earnings management is difficult to discern from pronouncement and/or statements and speeches by the regulators. This means that it requires the use of more sophisticated means of identifying earnings management before giving a clear definition.

Empirical Review

Audit committee plays an important role in monitoring management to protect shareholders' interest. The code of best governance practice in Nigeria requires that the committee should be largely independent, highly competent and possess high level of integrity. The committee is responsible for the review of the integrity of financial reporting and it oversees the independence and objectivity of the external auditors. Audit committee vis-a-vis earnings management has been explored in prior literatures using various constructs of audit committee quality, such as size of the board (Xie *et al.*, 2001), audit committee meetings (Beasley, Carcello, Hermanson & Neal, 2009), financial expertise of committee members (Kalbers & Fogarty, 1993). In extant literature, Hassan (2011) observed that more attention has been given to financial expertise as a construct of board competence. This, he observed, could be misleading as accounting expertise is much more relevant to the board members in the discharge of their duties as a monitoring mechanism.

Audit Committee Expertise and Earnings Management

An audit committee with members who are knowledgeable in financial and management accounting would improve the quality of financial reporting and make it difficult for management to indulge in earnings management. The study of Badalato *et al.*, (2013) opines that audit committee with both financial expertise and high relative status are more effective at determining earnings management as measured by accounting irregularities and abnormal accruals; affirming that a high degree of financial expertise is unarguably beneficial to audit committee. Financially-literate audit committee consists of members who are able to read and understand fundamental financial statements and to evaluate or analyse financial information. Expertise in auditing, accounting and internal control, form an important factor of audit committee effectiveness. Audit committee members must be knowledgeable and well experienced to fulfil their responsibilities effectively. It is expected that audit committees that have financially-literate members, achieve their responsibilities efficiently, and optimize corporate financial performance.

The presence of financial expertise helps the audit committee to fulfil efficiently their responsibilities. Audit committee must have at least one member who has modern and practical financial experience in accounting, financial administration, and auditing, with relevant years of experience in these fields. The SEC expanded those qualifying as “audit committee financial experts” to include directors with experience in analysing or evaluating financial statements, as well as to those actively supervising others who perform any of these activities; SOX, 2003.

This is supported by Salterio (2001) who found that the accounting experience of audit committee members as well as their knowledge of auditing are positively associated with the likelihood that they will support auditors in an auditor- corporate management disputes. This means that financial competence of audit committee members decreases the likelihood of earnings management. This also explains the findings of Chtourou *et al.*, (2001) who examined corporate governance mechanism and earnings management and found that the presence of at least one Audit committee member with financial expertise is negatively associated with the levels of earnings management. The result is in line with the work of Sharma and Kuang (2013) who investigated on the voluntary audit committee characteristics, incentives and aggressive earnings management in New Zealand and utilized a sample of 94 Firms from 393 Firms listed on the New Zealand Stock Exchange for the period of 2004 to 2005. They adopted performance modified Jones model to measure discretionary accruals. They also found that audit committee financial expertise is associated with a lower likelihood of aggressive earnings management. This means that the impact of financial literacy could be influenced by the independence of director as indicated above.

Looking at some of the above findings, it may be argued that the work of Kuang and Sharma (2013) on voluntary audit committee’s characteristics, and aggressive earnings management in New Zealand used only two years 2004 and 2005. Therefore, the time frame is limited. For that the study needs to be revisited by including other periods that were not captured.

Furthermore, Yang and Krishnan (2005) investigated the relationship between audit committee and the magnitude of quarterly earnings management. They reported weak association between audit committee financial expertise and earnings management. This result is supported by Nelson and Jamil (2012) who examined audit committees’ effectiveness in Malaysia and took sample of 20 out of 33 Firms listed as at 31st December 2010 for the year 2003 to 2009. They used modified Jones model by Dechow and Dechev (2002). The study reported no evidence to support the effect of audit committee financial expertise on the magnitude of earnings management. This is also consistent with the findings of Xie *et al.*, (2003) who found that financial expertise has no significant association with earnings management. In similar studies, the findings of Abott, Parker and Peter (2004) showed that financially sophisticated members are not associated to the probability of financial fraud. Ruhaida (2011) examined the relationship between corporate government practices, audit quality and earnings management in UK. The study consists of two empirical studies, the first one had a sample of 167 Firms, and the second consists of 613 Firms all from the population of financial Time Stock Exchange. Modified Jones model was used to measure discretionary accruals as a proxy of earnings management. His findings revealed a positive but insignificant relationship between audit committee financial expertise and earnings management.

From the foregoing understanding this study hypothesised thus:

Ho$_1$: There is no significant relationship between audit committee expertise and earnings management of quoted food and beverages firms in Nigeria.

Methodology

The population for this study comprise all the Food and Beverages manufacturing firms that are listed on the Nigerian Stock Exchange market (NSE). According to the Business Day News Paper report dated 10 April 2017, there are seventeen (17) food and beverages firms that are quoted in the Nigerian stock market. Therefore, the population size of this study is seventeen. Secondary data were collected from the annual reports of 15 sampled firms using convenience sampling methodology which was mostly dictated by data availability. The study period covered 2006 to 2016. Earnings management was measured by discretionary accruals, using modified Jones (1991) model. Time series data was used to estimate discretionary accrual for each respective sampled firm as at 2016 financial year-end. Ordinary Least Square based regression was then applied on the cross-sectional estimates of the discretionary accruals, taking cross-section of audit committee quality committee expertise independent variable.

Results and Discussions

Bivariate Analysis

Table 1 presents the correlation matrix of the study variables. The extent and course of relationships which were observed, as measured by Pearson's product moment correlation coefficients, reveals bivariate relationship magnitude of between 0.09 (very weak relationship) and 0.912 (very strong relationship).

Table 4.4: Correlation Matrix

	Meetings Frequency	Committee Expertise	Firm Size	Earnings Management
Committee Expertise	0.314384	1		
Earnings Management	-0.11958	-0.74960624	0.912311	1

Table 1 clearly points to an absolute verdict on the question of how audit committee expertise impact earnings management practices of Nigerian manufacturing firms. Members' Expertise appears to indicate the *a priori* correlation in their respective relationship with earnings management. For instance, *Members' Expertise* is confirmed to have strong negative association (-0.750) with *Earnings Management*, indicating that lower earnings management practice tendency is associated with firms whose audit committee are composed of higher expertise (i.e. longer professional accountancy practice, more Board experience). This strong correlation is indicative of possible corroboration of prior studies on the relationship between the two variables, notably among several others, those of Badalato *et al* (2013), Chtourou *et al* (2001), Kuang & Sharma (2013), etc.

Furthermore, this empirical evidence implicates the notion that firms are increasingly drawn to indulge in earnings management practices as they grow larger. One logical rationalization of this notion is that managers employ earnings manipulation to sustain their over-bloated ego by cooking the books in order to continue selling the dummy to their gullible shareholders. However, there appears to be a check on this rakishness of managers, as indicated by the coefficient of correlation of members' expertise. Thus while managers' disposition to cook the books is strong, the expertise of audit committee members serves as deterrent to this disposition through tighter scrutiny of managers' actions and decisions.

While the relative strength of correlations between pairs of the research variables offers useful insight into the possible phenomena which implicate the various research variables, there might be some undesirable consequences on the stability of the structural equation model which is intended to be used in testing the hypotheses of the study.

Multivariate Analysis

In other to test the stated hypotheses in section 1.6 of chapter two, two structural equations were required in all as follows:

$EM_{it} = \beta_0 + \beta_1 ACE_{it} + \beta_2 ACS_{it} + \beta_3 ACM_{it} + \varepsilon_{it}$ - - - - - - - - (1)

$EM_{it} = \beta_0 + \beta_1 ACE_{it} + \beta_2 ACS_{it} + \beta_3 ACM_{it} + \beta_4 FS_{it} + \varepsilon_{it}$ - - - - - - - - (2)

Each of the equations is a multivariate regression equation comprising of the dependent variable (Earnings Management), and all dimensions of the independent variable (Audit Committee). Accordingly, the results of the test are presented in two tables: the first is without the inclusion of the contextual variable, while the other equation is with the inclusion of the contextual variable.

Equation 1 Result

The OLS regression result is presented in table 4.5 as follows:

Table 2: Regression Result (Equation 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CEXP	-1.516951	0.390859	-3.881071	0.0022
NM	0.316056	0.760991	0.415322	0.6852
C	17.87127	2.684230	6.657874	0.0000
R-squared	0.562926	Mean dependent var		14.23488
Adjusted R-squared	0.490080	S.D. dependent var		2.462037
S.E. of regression	1.758107	Akaike info criterion		4.143209
Sum squared resid	37.09130	Schwarz criterion		4.284819
Log likelihood	-28.07407	Hannan-Quinn criter.		4.141701
F-statistic	7.727654	Durbin-Watson stat		1.742285
Prob(F-statistic)	0.006972			

According to table 2, the F-statistic of 7.72765 with probability of 0.006972 indicates the equation's overall goodness of fit. The DW statistic of 1.742 is indicative of minor estimation biases in the computed t-values and standard errors. This is possibly attributable to multicollinearity as noted before in section 4.2. Nevertheless, the explanatory power of the model as measured by the adjusted-R^2, suggests that 49.0% of changes in the earnings management practices are accounted for by the joint impact of all dimensions of shareholding structure among the sampled firms. Committee Members' Expertise is significant at 1% level with a negative sign as expected.

In order to be certain of the stability and reliability of the result, a diagnosis on the poor indication of the DW statistic is necessary. Table 3 presents the Variance Inflation Factor of the variables:

Table 3: Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
CEXP	0.152771	8.352874	1.074176
NM	0.579107	36.15977	1.074176
C	7.205091	34.96552	NA

36.15977 is significantly greater than the rule-of-thumb value (which is maximum of 10). However, since its inflation did not result in any major instability for the model as indicated by the F-significance and DW stat, its inclusion in the analysis is still valid. The structural equation relating earnings management to expertise of audit committee, as estimated in table 3 is therefore presented as follows:

$$|DA| = e^{17.871-1.517CEXP+0.316NM} + u$$

It is pertinent to note the coefficients of absolute discretionary accruals elasticity. Whereas that of expertise is negative and greater than unitary, that of meetings frequency is positive and less than unitary. Although the coefficient of meetings frequency is insignificant on its own, it is significant in jointly estimating the absolute discretionary accrual, which measures earnings management tendencies of managers. Therefore the implication is that committee expertise is likely to account for changes in earnings management tendencies more than meeting frequency would.

In line with the results obtained therefore, the following conclusions are drawn based on 5% significance level:

H_{01}: Audit Committee Expertise has no significant effect on Earnings Management of quoted food beverages firms in Nigeria.

Decision: With respect to H_{01}, there is statistically sufficient justification to reject the null hypothesis.

Discussion of Findings

This study has revealed that Committee Members Expertise) is significantly associated with Earnings Management as expected .It is therefore evident from the findings of this study that audit committee is significantly associated with earnings management, to the extent that the former acts as a check on the latter through effective monitoring. For instance, *Members' Expertise* is confirmed to have significant negative association with *Earnings Management,* indicating that lower earnings management practice tendency is associated with firms whose audit committee are composed of higher expertise (i.e. longer professional accountancy practice, more Board experience). This strong correlation is indicative of possible corroboration of prior studies on the relationship between the two variables, notably among several others, those of Badalato *et al.*, (2013), Chtourou *et al.*, (2001), Kuang and Sharma (2013).

Furthermore, this study finding is in agreement with the agency theory, which proposes that effective governance structure enhances the interest alignment of managers and shareholders of the firm. The separation of control and ownership brings with it, the consequence of conflicting interest between managers and shareholders. This therefore necessitates the existence of an audit committee. This study has documented empirical evidence to justify the existence of an audit committee by showing that audit committee existence enhances the reporting of quality earnings through effective monitoring (meeting frequency and membership expertise).

Conclusion and Recommendations

Prior studies Badalato *et al.*, (2013) cited in Sharma and Kuang (2013), etc. have found that audit committee enhances the internal controls of public companies and therefore has the potential to restrain managers from cooking the books. This study investigated the restraining capacity of audit committee on the earnings management practices of Nigerian manufacturing firms. It is the findings of this study that committee members' expertise significantly and negatively associated with earnings management tendencies of managers of quoted Nigerian Food and Beverages Manufacturing Firms, while audit committee size and meeting frequency failed the test of statistical significance at 5% level. Therefore this study has documented conclusive empirical justification for the establishment of audit committee as an effective monitoring mechanism in curtailing accounting malpractices in Nigerian public firms.

In conclusion therefore, the findings of this study have far-reaching implications for investors, regulators and scholars who may want to further research on this subject. For investors, Capital Markets, etc. the findings of this study provides the framework with which to evaluate the effectiveness of the audit committees of their firms. For instance, rather than placing premium on increasing meeting frequencies, priority should be placed on appointing members who possess high level professional competency in order to achieving audit committee effectiveness.

For regulators such as SEC, FIRS, Chambers of Commerce, etc., the findings of this study provides a basis for compliance enforcement policy formulation by identifying the key performance indicator of audit committee effectiveness. By establishing a minimum standard of professional competence expected of every audit committee member of public companies, the quality and effectiveness of regulation enforcement can be enhanced.

From the foregoing conclusion therefore, following, recommendations are here proffered:

- **i.** The current practice of uniform audit committee membership qualification requirement should be reviewed.
- **ii.** A minimum standard for qualification criteria for audit committee membership should be established. By establishing a minimum standard of professional competence expected of every audit committee member of public companies, the quality and effectiveness of regulation enforcement can be enhanced.
- **iii.** A special induction course for would-be audit committee members should be organized and made compulsory. This will present opportunity for such members to be acquainted with the business' unique internal workings, so that members are better prepared to strategize on how to challenge or reinforce the *status quo.*

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