Effects of Audit Committee Financial Expertise on Financial Reporting Quality of Quoted Deposit Money Bank (DMBs) in Nigeria

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Abstract

The reliance and expectation of stakeholders on the authenticity, and fairness of the financial statements and annual reports cannot be over emphasized. In order to achieve this, quality auditing must be carried out so as to maintain financial reporting quality. This study investigated the effect of audit committee financial expertise on financial reporting quality of quoted deposit money banks in Nigeria. Secondary sources of data were used to gather the data. Financial statements of (12) deposit money banks (DMBs) were selected for the period of twelve years (12) ranging from 2009-2020. Ex-post facto design was adopted in carrying out this research. The independent variable which is Audit committee Financial Expertise was proxied by the Number of committee members with Financial Expert (NFE) and dependent variable which is Financial Reporting Quality was proxied by Discretionary Loan Loss Provision (DLLP). Panel pooled data OLS regression technique (fixed effect) was employed and was analysed via E-Views 10. The result showed that Number of committee members with Financial Expert (NFE) has a positive and statistically significant effect on DLLPof quoted deposit money banks (DMBs).The study concludes that, in line with the qualification and experience requirement as indicated by the Security and Exchange Commission (SEC), financial reporting is enhanced when well-qualified and trained financial Experts are visible in the audit committee. Therefore the study recommends that, since bank managers have discretionary powers to influence the level of loan loss provisions, majority of the audit committee members should be financially literate, as this will stand as a yardstick for scrutinizing and overseeing the financial reporting processes.

Keywords: Audit committee, Financial Expertise, Financial reporting Quality, Quoted Deposit Money Bank (DMBs).

INTRODUCTION

The reliability of the audited financial statements of banks depend on the quality of audit as well as the integrity, skills and competencies of auditors and the actions of others in the financial reporting supply chain. In addition, the legal regulatory and business environments also play important parts in the debate on audit quality. Financial statement audit is said to be a control mechanism put in place for safeguarding the shareholder interests and reducing information asymmetry in order to guarantee that the audited financial reports are considered free from material distortion (Irungu, 2013), thus a high emphasis have been placed on financial reports as a vital source of information for assessing performance and decision making. Financial reporting in banks is essentially the responsibility of directors usually carried out by auditors and professional accountants (Moses 2016). Audit committee has been long seen as a vital institution in assisting the board of directors in enhancing the transparency and integrity of financial information reporting (Abdul & Mohamed, 2006; Jerry, Turner, & Carol, 2010). According to the Blue Ribbon Committee (1999) report, the audit committee is "first among equals in the financial accounting process and is the "ultimate monitor" of these processes. Audit committees that have financial expertise, have greater interaction with their internal auditors (Raghunandan, Read, & Rama, 2001). Also Dezoort and Salterio (2001) held that, the audit committee are more likely to understand external auditors and support the auditors in conflict situations with management.

According to SEC an audit committee financial expert must possess certain attributes which includes but not limited to,an experience in preparing, auditing, analyzing, or evaluating financial statements of a breadth and level of accounting complexity generally comparable to that expected to be present in the company's financial statements. This definition by SEC has provided more consistent associations between financial expertise on the audit committee and financial reporting quality. This study seeks to determine the effect of audit committee financial expertise on the financial reporting quality of deposit money banks in Nigeria. Audit committee financial expertise is proxied by the number of financial experts in the committee (NFE) while financial reporting quality is measured with the level of Discretionary loan loss provision of Banks (DLLP). The motivation of this study was spurred by the interest of the researcher to harness the need for measuring the financial reporting quality of banks with a more industry specific proxy (banking accruals that are evidently visible in banks financial statements). There has been deliberation on the flexibility that management is granted in determining an appropriate reserve for bank loan portfolios. The study time frame of this research is 12 years which is an expanse as compared to previous studies like (Amina et al 2018, Alisu et al 2019) which were carried out within a period of 6years to 8years. Further research showed that extant literatures on financial reporting quality adopted the modified Jones model on discretionary accrual as a steady measure for financial reporting quality in banks. However this study measured financial reporting quality of banks with a specific accrual peculiar to the banking industry which is the Discretionary Loan loss provision. In practice, bank managers have discretionary powers to influence the level of loan loss provisions. Consequently, the complaisance that management is granted in determining an appropriate reserve for bank loan portfolios coupled with the economic impact of the LLP expense makes it necessary for both investors and regulators to evaluate the information content of this figure carefully in the financial statement. Thus, financial reporting quality has been under scrutiny and various ideas and theories have surfaced, all trying to link the financial reporting quality to certain factors including corporate governance mechanism with emphasis on specific audit committee characteristics, auditor financial expertise and the remuneration of auditors (Shrieves& Dhal, 2003; Dhahiwal, Naiker, &Navissi, 2010). In order to achieve the main objective of the study, the following null hypothesis underlines this study;

HO_1: the number of audit committee members with financial experts has no significant effect on the quality of financial reports of Deposit Money Banks in Nigeria.

LITERATURE REVIEW

Conceptual Review

Audit Committee Financial Expertise

The financial experience of Audit Committee members plays a crucial role in constraining aggressive accounting practices (Abbott, Parker, & Peters (2004). This is to say that, the numbers of financial expertise on the Audit Committee reduces the level of fraudulent practices and strengthens the internal control process. Carcello, Hollingsworth, Klein and Neal (2006) document that; there is a reduction in the use of discretionary accruals and income-increasing accruals when accounting expert is on the Audit committee. Audit committee members are categorized as financial experts if they have some certain form of characteristics and qualification. The SEC passed rules to form a definition of who qualifies as a financial expert under Section 407 of the Sarbanes-Oxley Act. The final rules provide for a broader definition of an audit committee financial expert than a financial expert, which allows for a larger number of people to qualify as audit committee financial experts.

An audit committee financial expert must possess the following characteristics; The expert must have an understanding of GAAP and financial statements, the expert must have the ability to assess the general application of principles in connection with the accounting for estimates, accruals and reserves, the expert must have experience in preparing, auditing, analysing or evaluating financial statements that present the scope and complexity of accounting issues that are generally comparable to the complexity of issues that the registrant's financial statements may raise or experience, the expert may have experience actively supervising one or more people engaged in those activities, The expert must be able to understand the internal controls and procedures for financial reporting and be able to understand audit committee functions.

To qualify as a bonafide financial expert, the audit committee financial expert must obtain their experience and education through one of the following positions: Principal financial officer, Principal accounting officer, Controller, Public accountant and an Auditor. In lieu of holding one of these positions, the expert may have experience in one or more positions where they performed similar functions. A qualified financial expert may also be someone who supervises a principal financial officer, principal accounting officer, controller, public accountant or auditor, or someone who performs similar functions.

Financial Reporting Quality

Financial reporting quality signifies the degree to which financial reports provide truthful and unbiased information about core financial positions and financial performance (FASB). Thus, understanding financial reporting quality is worthwhile to the investor, who needs to effectively evaluate investment risk in the international capital markets (Tang, Chen, & Lin, 2016). Thus, audit quality is a regular paradigm that guarantees financial reporting quality, as greater quality auditing provides better assurance of higher quality of financial reports (DeFond & Zhang, 2014). Tsipouridou (2012) argued that when users are unsure about the reliability of financial statements, they will look at the auditor's report. From the perspective of Kaklar, kangarlouei and Motavasel (2012), it is expected that high audit quality leads to high financial reporting quality which helps in curtailing and averting financial crisis.

Discretionary Loan Loss Provision

Loan loss provision is an expense on the income statement which signifies managers' assessment of expected future losses. This means that an increase in loan loss provision reduces net income, while a fall in loan losses increases net income. Since it is the result of managers' assessment of the likely loss that the company would incur should the borrower fail to repay his obligations as at when due, the provision for it is considered to have two (2) portions: non-discretionary and discretionary portions. "Non-discretionary is a function of specific quality determinants in the loan portfolio- non-accrual loans, renegotiated loans, loans past due over 90 days, specific analyses on troubled large credits, usually implying internal grading system" (Grey & Clarke 2004: 323).

The discretionary portions are those accruals that largely depend on the outcome of the managers' future expectation of uncertain events (Mohammad, Mohammad &Rahmat 2007). While the non-discretionary portion, therefore, is the provision that is based on fair and objective analysis of the firm's economic conditions. The components of it are both quantitative and qualitative. Grey and Clarke (2004) pointed that the qualitative components include political, economic, geographical and political factors; while the quantitative are "statistical analysis of loans not individually analyzed for special reserve and therefore are largely at the discretion of managers".

Empirical Review

Guo, Jin, Liu and Nainar (2020) examined the effect of Non-traditional Banking Activities and Bank Financial Reporting Quality of quoted commercial banks in the United State. The independent variable financial reporting quality was represented with discretionary loan loss provision which were estimated using the model adopted by Beatty & Liao(2014), while the dependent variable non-financial activities was represented by bank's ratio of non-interest income . The sample covers three sub-periods: the 14 years preceding the financial crisis (1993–2006), the three years of the financial crisis (2007–2009), and the three years following the financial crisis (2010–2012).the data were analyzed using ordinary least square regression. The findings of the study indicated that the non-interest income share (NII) is positively and significantly correlated with Absolute value of discretionary loan loss provision. The findings of the study indicated that large public banks can reduce their overall earnings volatility by diversifying their revenue streams and engaging more in non-traditional activities, such as investment banking, advisory services, security brokerage, underwriting fees and commissions, and asset securitization. Hassan, MdKassim, AzaAzlina and Hamid (2020) carried out a study by assessing the impact of audit quality, audit committee and financial reporting quality: evidence from Malaysia.the research was carried out to investigate the moderating influence of audit quality on the association between Audit committee with earning management. Data was collected from the quoted trading company's annual report and also from reports of "Bursa Malaysia" (Malaysia stock exchange) which was published from 2013 to 2018. This study adopts multiple regression models to examine the relationships between the dependent, independent, and moderating variables. The results showed that audit quality of the audit committee leads to less aggressive earnings management practice in real activities. Based on the results and discussion about effect testing between variables, the study concluded that Audit Committee Independence had a positive effect on financial reporting quality (FRQ) Real Earning Management (REM).

Sarah (2019) carried out a study on the Effect of Growth on Financial Reporting and Audit Quality evidence from Economic Shocks to Banks in United States. The study measured financial reporting quality of banks with loan loss provision and audit quality was measured with auditor expertise and auditor industry specialization. The study covered a period of 10 years, (2005-2014). The Analyses for this research were carried out using descriptive statistics and Panel Least Square. Findings from the study indicated that, financial reporting quality, measured by loan loss estimate quality, is lower in a period of rapid bank growth due to management's under-reaction to the positive economic shock and also that auditors with a combination of both task-specific and industry-specific expertise are more successful in mitigating the deterioration in financial reporting quality compared to auditors with general, Big 4 or industry-specific expertise alone. Conclusively, the findings suggest that a combination of industry and task-specific auditor expertise is needed to combat deterioration in financial reporting quality resulting from a positive economic shock. Amina, Hassouna & Moez (2018) carried out a research to examine the effect of Audit Committee and Discretionary Loan Loss Provisions in Tunisian Commercial Banks for the period of 14 years from 2001-2014. The regression models were estimated using the "Panel corrected standard errors" method of Beck and Katz (1995). Findings from the study showed that the results indicate that expertise of the audit committee's members has an important effect on discretion and the frequency of audit committee meetings, which is below the standards required by regulatory authorities, does not have a disciplinary effect on discretionary practices.

Alisu, Modibbo and Adamu, (2019) examined the impact of audit committees' size and financial expertise on the discretionary loan loss provision of listed Deposit Money Banks in Nigeria for the period of 5 years from 2009-2013.The study employed correlation research design which composed a sample of 14 banks. Secondary data were collected from annual report and accounts of the sampled companies. Ordinary Least Squares multiple regression technique of data analysis was employed. The study found a significant association between discretionary loan loss provision and Audit Committee characteristics. The study also found that the Audit Committee Size and audit committee financial expertise of the sampled Deposit Money Banks has significant positive impact on banks discretionary loan loss provision. Based on the findings from this study, the study recommends that listed Deposit Money Banks in Nigeria should increase the size of their Audit Committees' membership. This will reduce the earnings management and the level of discretionary loan loss provisions of Deposit Money Banks in Nigeria.

Theoretical Framework

Theory of Inspired Confidence

Limperg (1932) advocate both demand for and supply of audit services. The demand for audit services is primarily the need of interested parties of the company (that is shareholders and other stakeholders). These shareholders and stakeholders demand accountability from the management, in return for their investment to the company, because of a possible divergence between the interest of management and outside stakeholders, hence, audit of this information is necessary. However, the level of audit assurance that the auditor provide, depends on the ability of the auditor to act in such a way that he does not disappoint the expectations of outsider stakeholders, while, on the other hand, he should not arouse greater expectations in his report than his examination justifies. This theory links the stakeholders need for credible and reliable financial reports and the competence of the auditor to meet such need. According to okolie (2014), the theory confers on the auditor high level of confidence as the only savior that can give stakeholders all relevant information that will reduce information irregularity

Agency Theory

Agency theory was popularized by Jensen and Meckling in 1976; it is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents. There is the likelihood that managers will carry out activities that might ultimately be to the detriment of the company and stakeholders to satisfy their selfish need (Huang, 2011). To make it easy for the managers to satisfy his selfish desire, he will create information gaps to inform the investors only what they should hear. According to Fields, Lys and Vincent (2001), when managers have greater access to the information compared to the owners, there abounds information asymmetry. This arises as the agent has access to information that is superior to the information accessible to the principal (Jensen &Meckling, 1976). Agency theory focuses on the principal agent problem that arises in such relationships. It holds that managerial behaviour can be opportunistic and fuelled by self-interest (Davis, Schoorman& Donaldson, 2018).

All theories reviewed are relevant to this study in one aspect or other. However, this study is underpinned by the agency theory in line with many previous studies on financial reporting quality of Deposit Money Banks. The agency theory as a branch of information theory explains and treats accounting data and the directors as goods, subject to the laws since the demand for the audit is based on the reliability and relevance of the financial information as input in the decision-making process (Bruno 2013). As such, the assumptions owing to the imbalance in the information provided and agency disagreements between managers' interests and outside consumers, the agency theory gives better explanation on the motivation for financial reporting quality and the nexus between audit committee financial expertises as a monitoring mechanism for proper financial reporting quality.

METHODOLOGY

The study adopts the ex-post facto research design because data are already in existence on the financial statement and annual report thus, cannot be changed by the researcher. The population of the study comprises all the fourteen (14) Listed Deposit Money Banks on the Nigerian Stock Exchange (NSE) as at 31 December, 2020 out of which a sample of 12 were selected based on availability of data using purposive sampling technique. The study will rely on archival data collected from annual reports and accounts of the sampled quoted deposit money banks for a period of 12years from 2009-2020. The period was selected to enable the study analyze the effect of audit quality attributes on financial reporting quality over an extended period of time as other studies mostly rely on five or 8 years. The data was analyzed using panel regression via the help of Eviews10.

3.1 Model Specification

In order to test the hypotheses formulated in this study and to achieve the objectives of the research, we followed the approach of Ben and Mersni (2016) by adopting the following LLP Model to estimate the discretionary loan loss provision (the residual of the model):

$LLP = \alpha + \beta_1 NPL_{it} + \beta_2 \Delta NPL_{it} + \beta_3 \Delta LOAN_{it} + £_{it}$……………equation (1)

Where:

LLP = Loan loss provision of bank I in year t

NPL_{It} = The opening balance of non-performing loans of bank i in year t divided by total loans of year t

ΔNPL_{It} = Change in non-performing loans of bank I in year t (current it year NPL minus previous year NPL)

$\Delta LOAN_{it}$ = Change in loans of Bank I in year t (current loans minus it previous year loans)

α = Intercept

$£_{it}$ = error term

$B_I - \beta_3$ =regression coefficients

After estimating the discretionary loan loss provision from the model one, the model of the study is expressed as follows:

$DLLP_{it} = \alpha_0 + \beta_l NFE + £_{it}$……………………………equation (2)
$DLLP_{it}$ = Discretionary loan loss provision of bank I in year t
NFE_{it} = Audit committee number of financial expertise of bank I in year t
α_0 = Intercept
$\beta_{l-}\ \beta_{3-}$ = regression Coefficients
$£_{it}$ = Error term or residual

Table 3.2 Measurement of variables

SN	PROXY	TYPE	MEASUREMENT	SOURCE
1	Discretionary loan loss provision	Dependent variable	LLP will be broken down into two components: The the non-discretionary component and the discretionary component. By adopting the model approach of Ben and Mersni (2016) where the first step is to estimate total provisions (LLP) by identifying the non-discretionary component. In the second step, the residual of the first regression representing the discretionary component is calculated by the difference between the total (LLP) and non-discretionary provisions.	Amina et al. (2018)
2	Audit committee financial expertise	Independent variable	Number of members with either accounting and finance qualification and shareholders in the audit committee.	Alisu et al (2019)

RESULTS AND DISCUSSION

Table 1: Descriptive Statistics Results
Date: 09/14/21
Time: 20:17
Sample: 2009 2020

	DLLP	NFE
Mean	14.58229	12.87500
Median	5.450000	3.000000
Maximum	18.07900	4.000000

Minimum	5.060000	6.000000
Std. Dev.	19.65822	9.500000
Skewness	8.059374	3.273624
Kurtosis	2.203305	6.078327
Jarque-Bera	26314.19	83.14725
Probability	0.000000	0.000000
Sum	371.8500	414.0000
Sum Sq. Dev.	26676.21	35.75000
Observations	144	144

Sources: Authors Computation (E-Views 10, 2021)

Table 1 presents the descriptive statistics of the financial reporting quality proxy by discretionary loan loss provision (DLLP) and the audit committee financial expertise proxy by number of financial expert (NFE) during the period of 2009 to 2020. The table shows the discretionary loan loss provision (DLLP) mean of 14.58229 with standard deviation of 19.65822 and the minimum and maximum values of 5.060000 and 18.07900. Although the range between the minimum and maximum is wide, it implies a stable performance as the standard deviation indicated that there is no wide dispersion of the data from the mean value. From the other measure, number of financial experts (NFE) has a mean of 12.87500 with a standard deviation of 9.500000 and the minimum value of 6.000000 respectively. This implies that audit committee financial expertise in terms of number of financial experts is not volatile during the period, as the standard deviation is low compared to the mean, together with the wide range between the minimum and maximum values.

Skewness which measures the shape of the distribution and equally shows the measure of the symmetry of the data set, indicated that DLLP and NFE are all positively skewed and have values greater than zero which suggests that the distribution tails to the right-hand side of the mean. Hence, the distributions of all the variables are positively skewed, considering that their values are greater than zero, in addition to the fact that their mean are greater than their median. Kurtosis value measures the peakness and flatness of the distribution of the series. If Kurtosis value is less than 3, it means the distribution of the variable is normal, but when it is more than 3, the distribution of the variable is said to be abnormal. DLLP with value 2.203305 of kurtosis less than three which is called platykurtic (fat or short-tailed) qualifies during the study period. On the other hand, variables whose kurtosis value are greater than three are called leptokurtic (slim or long tailed) and NFE qualified for this during the study period with a value 6.078327.The Jarque-Bera statistic is for testing normality of a variable. If the variable is normally distributed, the histogram will be bell-shaped and as such the Jarque-Bera test of normality is an asymptotic or large-sample test. Jarque-Bera also measures the difference between the skewness and kurtosis of each of the variables. NFE has the highest Jarque-Bera value of 26314.19 while DLLP has the lowest Jarque-Bera value of 83.14725 respectively.

Panel Data Properties

Econometric studies have revealed that most financial statement data and variables are non-stationary and using non-stationary variables leads to spurious regression. Augmented Dickey-Fuller (ADF) test was used to determine whether the variables of the study exhibit unit root properties. The decision rule for the ADF Unit root test states that; the ADF Test statistic value must be greater than the Critical Value at absolute term for stationarity to be established at level and if otherwise, differencing occurs. The results of unit root test conducted for all the variables are presented below.

Table 2: Unit Root Test DLLP at Level Difference
Null Hypothesis: Unit root (individual unit root process)
Series: D(DLLP)
Date: 09/29/21 Time: 22:14
Sample: 2009 2020
Exogenous variables: Individual effects
User-specified lags: 1
Total (balanced) observations: 108
Cross-sections included: 12

Method	Statistic	Prob.**
ADF - Fisher Chi-square	32.6634	0.0114
ADF - Choi Z-stat	-1.66767	0.0477

Sources: E-Views 10 Output, 2021

The table 2 above shows the outmoded test of Augmented Dickey-Fuller (ADF) specify that the probability value under the ADF is 0.0477, less than 0.05 or 5% at first difference as attached in (appendix I). This suggests that discretionary loan loss provision (DLLP) dependent was stationary at level difference; the Augmented Dickey-Fuller (ADF) Z-statistics (-1.66767) is greater than the absolute critical values at 5% level of significance. This entails that the Null Hypothesis must be rejected and DLLP has no unit root test, therefore the data is stationary.

Table 3: Unit Root Test at First Difference (NFE)

Null Hypothesis: Unit root (individual unit root process)
Series: D(NFE)
Date: 09/29/21 Time: 22:23
Sample: 2009 2020
Exogenous variables: Individual effects
User-specified lags: 1
Total (balanced) observations: 108
Cross-sections included: 12

Method	Statistic	Prob.**
ADF - Fisher Chi-square	56.8840	0.0002
ADF - Choi Z-stat	-3.02965	0.0012

Sources: E-Views 10 Output, 2021

Similarly, the table 3 above illustrates the test of Augmented Dickey-Fuller (ADF) which shows that the probability value under the ADF is 0.0012, less than 0.05 at first difference as attached in (appendix K). This indicate that number of financial expert (NFE) independent was stationary at second difference; the Augmented Dickey-Fuller (ADF) Z-statistics (-3.02965) is greater than the absolute critical values at 5% level of significance. This implies that the Null Hypothesis must be rejected and NAFE has no unit root test, therefore the data is stationary.

Hausman Test

Decision Rule: If the probability is greater than 0.05 of 5%, random effect is accepted and interpreted, in the same way if the probability is less than 5% or 0.05; fixed effect is accepted and interpreted.

Table 5: Hausman Test Result
Correlated Random Effects - Hausman Test
Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.192332	1	0.0410

Sources: E-Views 10 Output, 2021

Based on the outcome of Hausman test result, fixed effect (FE) is accepted and suggested to be interpreted because the probability is less than 5% or 0.05; therefore the model is best fitted for the dependent DLLP and independent NFE respectively.

Test of Hypothesis

Table 6: Fixed Effect Regression Result
Dependent Variable: DLLP
Method: Panel Least Squares
Date: 09/14/21 Time: 20:31
Sample: 2009 2020
Periods included: 12
Cross-sections included: 12
Total panel (balanced) observations: 144

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.571064	7.789338	0.330075	0.0419
NFE	0.003905	2.683716	0.001455	0.0288
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.792413	Mean dependent var		2.582292
Adjusted R-squared	0.518435	S.D. dependent var		13.65822
S.E. of regression	12.82393	Akaike info criterion		8.026443
Sum squared resid	21543.37	Schwarz criterion		8.294551
Log likelihood	-564.9039	Hannan-Quinn criter.		8.135387
F-statistic	2.600963	Durbin-Watson stat		1.995858
Prob(F-statistic)	0.003892			

Sources: E-Views 10 Output, 2021

As shown in table 6 above, the coefficient of multiple determinations R-square (R^2) is 0.792413. This entails that 79% of the total variations in dependent variable discretionary loan loss provision (DLLP) is explained by the variations in the independent variable number of financial experts (NFE), while the remaining 21% of the variations in the model is captured by the other explanatory variable and error term. This indicates that the line of best fit is highly fitted. The standard error test is applied in order to measure the size of the error and determine the degree of confidence in the validity of the estimates. Usually if the standard error is smaller than half of the numerical value of the parameter estimate, it can be concluded that the estimate is statistically significant. Having carried out the standard error test on the parameters estimated and it also indicated by a probability value, the parameter estimate for (NFE) is statistically significant. Durbin Watson test is adopted for Autocorrelation. The Durbin Watson statistics is given as 1.99 approximately to 2.0 which shows that there is no autocorrelation in the model. The F-statistics value is given as 25.60963 and the probability value of the F-statistics is 0.003892. This implies that the overall regression is positive and statistically significant at 0.05 or 5% level of significance, given the probability value (PV) 0.0288 which is less than 0.05.

Discussion of Findings

This study was carried out to inspect the effect of audit committee financial expertise on the financial reporting quality of quoted deposit money bank in Nigeria (DMBs) for 12 years ranging from 2009 to 2020 where the dependent variable, financial reporting quality proxied by discretionary loan loss provision and independent variable, audit committee financial expertise proxied by the number of financial expertise. The effect of independent variable (NFE) and dependent variable (DLLP) was analysed in terms of strength and fixed effect ordinary least square (OLS) regression was used to compare the relationship among the variables. The result of the hypothesis which is in sequence with the objective of the study showed that number of financial experts (NFE) has a positive and significant effect on discretionary loan loss provision (DLLP) and this implies that (NFE) is significantly an independent predictor of (DLLP). This finding is in agreement with Amina et al. (2018) and Alisu et al. (2015) whose findings shows that audit committee financial expertise of a sampled deposit money banks (DMBs) has significant and positive impacts on the banks discretionary loan loss provision (DLLP).

CONCLUSION AND RECOMMENDATION

This study concludes based on the findings that the quality of financial reporting is significantly enhanced by well-qualified and trained number of financial experts in the audit committee. Thus, the association between audit committee financial expertise proxied by the number of financial experts (NFE) and that of financial reporting quality proxied by (DLLP) is more prominent when the number of financial expert who make up the audit committee members are actively taken into consideration because they can positively affect the quality of financial statements. Therefore, this study is a comprehensive prove that the more the number of financial experts, the more comprehensive financial report and thus, contributes to the quality of financial reporting quality of deposit money banks in Nigeria.

In view of the above mentioned findings, this study recommends that; Majority of the audit committee members should be financially literate, as this will stand as a yardstick for scrutinizing and overseeing the financial reporting processes especially since bank managers have discretionary powers to influence the level of loan loss provisions. Also, the qualification and experience requirement as indicated by SEC should be the main prerequisite for selection of financial experts in the committee.

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