Article

Audit Committee Independence and Voluntary Disclosure: Evidence from Listed Manufacturing Companies in Nigeria

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Abstract
This study investigated the influence of audit independence on voluntary disclosure of listed manufacturing companies in Nigeria from the period of 2015-2019. Purposive sampling technique was used to include all the thirty-three (33) manufacturing companies (both Industrial and Consumer Goods) listed on the Nigerian Stock Exchange. Information was generated using content analysis of annual reports. A disclosure check list consisting of fifty items was developed based on relevant previous studies and Nigeria Code of Corporate Governance (NCCG)'s principles. Static panel data (Pooled OLS, panel Fixed Effect Model, panel Random Effect Model), correlation matrix and descriptive statistics were employed in the estimation. The estimation of the static panel model shows that audit committee independence has positive impact on the level of voluntary information disclosed. It was concluded that the level of companies' voluntary disclosure of information is hinged on the extent of dependence of its audit committee. The study recommended the need for functional and independent audit committee, which will aid in minimizing agency and monitoring costs. In order to ensure the independence of audit committee, the chairman of the board of directors or managing director or chief executive officer nor any of the executive directors should be member of audit committee that there is need for functional and independent audit committee.

Keywords
Audit, auditor, audit committee, audit independence, governance

Introduction

An organization that takes part in great corporate administration practice gives fundamental data to its value holders and their partners, thus limiting data

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imbalance (Agyeman, 2013). This reality, which has been supported by numerous research and recommendations, led to the official launch of the new Nigerian Code of Corporate Governance (NCCG) on January 15, 2019. The codes aim to institutionalize best practices for corporate governance in Nigerian businesses and to raise public understanding of fundamental business ethics and principles that will improve the fairness of the marketplace.

Equal access to fundamental information is guaranteed by mandatory disclosure regulations (Lev, 1992), but these regulations must be supplemented by the company's voluntary disclosures (Cheng & Courtesy, 2006). Companies' voluntary disclosure is a method used to lessen information asymmetry between the company and external investors (Akhtaruddin & Haron, 2010), which also lowers agency costs and increases reporting transparency. The rights of minority owners are also thought to be protected through transparency and appropriate disclosure (Jiang, Habib & Hu, 2011).

Globalization and shifting corporate environments, among other factors, have recently caused firms to pay more attention to disclosure and transparency (Healy & Palepu, 2001). Additionally, a lack of corporate disclosures has led to a number of scandals across worldwide. The failure of numerous well-known and large corporations, including Enron, Worldcom, Pamalet, Cadbury, other large corporations, Nigerian banks, Lever brother (now known as Uniever Plc), African petroleum, Cadbury Nigeria PLC, and a host of others has prompted governments, policy makers, and regulatory bodies around the world, including Nigeria, to work toward ensuring the public's confidence in financial reporting, corporate governance, and other related areas.

The audit committee is a crucial component of CG because it compels management to achieve shareholders' expectations. One of the CG tools used to lower company risk and promote transparency between shareholders and management is firm audit committee. It is seen as being essential to preserving the company's transparency. The audit committee is a vital governance tool designed to make sure that businesses give accurate, complete, and reliable information so that investors and other third parties may assess the company's performance. The audit committee, according to Madi, Ishak and Manaf (2014), is crucial for enhancing internal control and disclosure procedures.

Despite the significance of accounting standards on a global basis, mandatory financial reporting has come under criticism for having inherent flaws and not disclosing key drivers of company value in crucial business operations (Opanyi, 2019). Due to its inability to satisfy the demands of various user groups who sought for expanded voluntary disclosure, there has been an increase in discontent with mandated financial reporting (Eng & Mak, 2003; Bossco & Kumar, 2007). Previous empirical studies show contradicting outcomes regarding the influence of CGM, particularly audit committee on level of voluntary disclosure; hence this study investigated the association between audit committee independence and level of voluntary disclosure of Nigeria listed manufacturing companies.

Literature Review

Corporate Governance

Over the years, various interested parties, including academics, professional organizations, regulators, and scholars, have defined CG from a number of perspectives. A specific definition of CG is not agreed upon in the literature review. There is no single, accepted definition of corporate governance. Authors define the idea of CG in accordance with the country being studied and based on their own expertise and comprehension of it. According to Keasey & Thompson (2005), each definition of corporate governance has a unique analysis that draws on a variety of disciplines and representations. These definitions also have various explanations. As stated by Sullian (2000), there are two perspectives on corporate governance, taking into consideration the various viewpoints on the concept.

There is Shareholder Perceptive, also known as the Traditional School of Corporate Governance (narrower definition). This viewpoint is centered on how the division of duties between agent and principal will affect shareholder wealth. Corporate governance is thus limited to a company's relationship with its shareholders. According to Solomon and Solomon (2004), the close relationship between shareholders and the corporation is the basis of the narrow definition of CG. According to this perspective, CG should strive to maximize shareholder objectives while not interfering with business operations. This perception is in accordance with the agency theory, which holds that shareholders aim to maximize their wealth. Additionally, Parkison (1994) defines CG as "the process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders" and places emphasis on shareholders' perspectives. These definitions above ignored other stakeholders and only concentrated on CG as the process of checking shareholders' interests. This concept's shortcoming arises from its disregard for other stakeholder groups.

Stakeholder Perspective is the second perspective (refer to broader definition). The idea of corporate accountability to stakeholders is at the core of this. As thus, CG is viewed as a system of associations between a firm and its owner (shareholders) as well as a wide range of other stakeholders. According to this viewpoint, Solomon (2007) defined CG as "the system of checks and balances, both internal and external to companies which ensure that companies discharge their accountability to all of their stakeholders and act in a socially responsible manner in all areas of their business activity."

Audit Committee

After the results of corporate scandals around the world, researchers have been focusing on the function of the audit committee and the independence of the audit committee. Prior to the (US) Sarbanes-Oxley Act of 2002, the chief financial officer was responsible for selecting the auditor, creating the compensation plan, and overseeing the production of the financial statement and annual report, now, the audit committee is in charge of all of these duties directly (Ali, 2014).

The audit committee's roles include “oversight and monitoring” of a company's financial reporting, financial performance, and working with external auditors who examine financial statements and internal control. As a result, the audit committee ensures the accuracy of financial information.

In addition to ensuring continuous interaction between the board and external auditors (Rashidah & Fairuzana, 2006), the existence of the audit committee and improved audit committee independence will also increase investors' confidence in financial statements and result in a lower incidence of errors and irregularities (Rouf, 2011). The audit committee was regarded by Forker (1992) as one of the best oversight structures, a tool to improve disclosure, and a way to reduce agency conflict. As a result, audit committees with a significant percentage of NEDs who have relevant financial backgrounds, expertise, and training will be aware of their responsibilities and then enhance the oversight process.

Voluntary Disclosure (VD)

The concept of disclosure holds its importance from the very definition of accounting. VD is described as a clear representation of a fact or condition on a balance sheet or other financial statement, in the footnotes to that statement, or in the audit report. On the contrary, disclosure was described by Parker (1992) as "the reporting of information (both financial and non-financial) to users of accounting reports, especially to investors." He also said that disclosures could be provided voluntarily or in accordance with legislation and accounting rules (which is mandatory).

Similar to this, according to Cooke (1992), disclosure includes "both voluntary and mandatory items of information provided in the financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year, and any supplementary information." Financial disclosure was also described by Gibbins *et al.* (1990) as "any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels.". Choi (1973) provides a comprehensive definition of disclosure, stating that it is "the publication of any economic data relating to a business enterprise, whether quantitative or otherwise, which facilitates the making of economic decisions.

There are two broad processes in financial reporting, they are accounting measurement and disclosure which are interrelated. Measurement denotes company operation in order to understand inter relationship among the perceived business operation. Corporate information disclosure is useful and has information value since it impacts stock performance (Rippington & Taffler, 1995). There may be information gap between shareholders and managers if businesses do not give shareholders adequate information. However, minimum disclosures can help reduce the information gap between the informed and uninformed. Additionally, the majority of scholars argued that the goal of disclosure is wealth redistribution rather than the improvement of economic efficiency. Three kinds of disclosures are introduced by Al-Razeem and Karbhari (2004) in annual reports, including mandatory disclosure requirements, the strength of mandatory disclosures, and supplementary disclosures which includes additional information beyond the minimum requirement of mandatory disclosure regulations.

The theoretical framework adopted for this study are Agency, Legitimacy and Signaling theories. Issues such as maximization of shareholder interest, principal and agent conflict, information asymmetry and the social contract have direct effect on a company's operation, as such company must consider these issues throughout the decision-making process of voluntary disclosure.

Review of Empirical Literature

Previous studies have recorded that CG features act as an explanatory mechanism for VD of a firm and the trend continues. (Garcia-Meca and Sanchez-Ballesta, 2010; Khalif and Souissi, 2010).

Table 1: Summary of Empirical Literature

Author(s) and Year	Topic	Methodology	Findings
Rouf (2011)	Association between corporate characteristic, governance attributes and the extent of LVD of listed non-financial companies in Dhaku Stock Exchange	Ordinary Least Square (OLS) Regression Analysis	Findings show that there are positive relationship between board size, audit committee and the role duality with voluntary disclosure.
Aljanadi et al. (2013)	Relationship between corporate governance mechanism and voluntary disclosure of listed firms in Saudi.	It used 22 voluntary disclosure checklists and multivariate analysis.	The result showed that firm size, industry type, non-executive directors and board size have positive impact and significant relationship with the degree of voluntary disclosure.
Hassan (2015)	Impact of corporate governance characteristics on voluntary disclosure of UAE listed corporations.	It study used 29 disclosure items and multiple regression analysis	The findings revealed that external auditors and board committee have positive significant effect on the extent of disclosure of UAE listed corporations.
Khoshbaht and Saiteh (2011)	Relationship between corporate governance and voluntary disclosure of information in Iranian listed Companies.	Linear Multiple Ordinary Least Square (OLS) Regression Model	Findings indicated that the indirect directors and institutional ownership both lead to more voluntary disclosure. On the other hand, they found insignificant relationship between voluntary disclosure and other three corporate governance aspect (i.e. ownership centralization, free float and audit type).
Hidalgo et al. (2011)	Relationship between corporate governance mechanism and voluntary disclosure of intellectual capital by Mexican companies.	Linear Multiple Ordinary Least Square (OLS) Regression Model	Authors found that only two variables, board of directors and institutional shareholding) improve voluntary disclosure of intellectual capital.

Source: Author's compilation

Methodology

This study used descriptive and expo-facto research design because the data needed for analysis in this study already exist. This study also conducted a longitudinal analysis between the years 2015 to 2019. The year 2015 was chosen as the base year because it follows the year in which Stock Exchange Commission (SEC) revised the 2011 code of corporate governance. Purposive sampling technique was used to include all the thirty-three (33) manufacturing

companies (both Industrial and Consumer Goods) listed on the Nigerian Stock Exchange. Information was generated using content analysis of annual reports. The data collection for this study was mainly through secondary source. The data were obtained from the Nigerian Stock Exchange website. A disclosure check list consisting of fifty items was developed based on relevant previous studies and Nigeria Code of Corporate Governance (NCCG)'s principles. Static panel data (Pooled OLS, panel Fixed Effect Model, panel Random Effect Model), correlation matrix and descriptive statistics were employed in the estimation.

Table 2: Operationalization of Variables

Variables	Acronym	Variable Measurement
Dependent Variable Voluntary Disclosure	VDI	Measured as dummy "1" for Voluntary Disclosure and "0" otherwise
Audit Committee Independence	ACS	The proportion of independent directors on the Audit Committee.

Source: Author's Compilation (2023)

Disclosure Checklist and Scoring Criteria

A content analysis was carried out, to construct a "Disclosure Checklists" from the annual reports. A disclosure index was developed from the checklist. Voluntary disclosure index is a reliable and valid mechanism for valuing voluntary disclosure (Alfaraih & Alanezi, 2011). Many researchers argue that developing a disclosure index for the voluntary disclosure studies is common task. The annual reports of the firms selected for this study was checked against a self-constructed voluntary disclosure index based on (Meek, Roberts & Gray, 2015; Chau & Gray, 2002; Ghazali & Weetman, 2006). This study used unweighted index approach.

Findings

Table 3 presents the result of the Hausman test which is used to test the random effect result against the null or fixed effect result, and establish whether the random effect is being uncorrelated with the explanatory variables.

Table 3: Hausman Effect Regression

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	100.156075	5	1.0000

Source: Computation based on each manufacturing company's financial statement data for period 2015-2019 with the aid of E-views (10)

The chi-sq. Statistic is 100.156075 while the P-value of the Hausman test is 1.0000 which is 1%. The decision rule states that p-value of less than 1% mean that fixed effect is appropriate. P-value of the Hausman test is less than 1%, this therefore indicates that the fixed effect specification is appropriate.

Hypothesis

H0: There is no connection between the audit committee independence and level of voluntary disclosure.

Table 4: Fixed Effect Regression

DEPENDENT VARAIBLE: VDI METHOD: LEAST SQUARE				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.830357	2.012075	4.126868	0.0000
ACS	3.753811	3.566241	10.52596	0.0000
R-Squared	1.000000			
Adj. R^2	1.000000			
F-STAT	2.527976			

In our regression result, the P-value (F-stat) is 0.000000 which is less than 5% level of significance (0.000000<0.05), we reject the null hypothesis. It indicates that there is jointly effect on the dependent variables.

In our regression result, R-squared is 1.000000 which indicates that 100% of variation in dependent variable is explained by the explanatory variable. This indicates a good fit since 100% of the variables are attributable to the error term and the closer the R-squared to 1 the better the regression model. The Adjusted R-squared is 1.000000 (100%) as depicted in the table above.

From the coefficient, the constant (α) in the model is 0.830357, which means holding all the variables (ACS) constant, VDI (Voluntary Disclosure Index) equals 0.830357. VDI will vary positively up to the tune of 0.830357 when all variables are held constant. From the equation $\beta_1$co-efficient is 3.753811, it reveals that a positive relationship exists.

Discussion

The result of hypothesis shows that audit committee independence has a positive relationship with level of voluntary disclosure. this result was supported by studies conducted by Akhtaruddin and Haron in 2010, Haji in 2015, and Madi *et al*. in 2014. In their research, they found a significant relationship between audit committee independence and voluntary disclosure. The concept that independent directors within the audit committee increase the monitoring function and establish controlling power is supported by the finding of a positive association between audit committee independence or composition and voluntary disclosure. As a result, this significantly contributes to decreasing information asymmetry and raising transparency.

According to Forker (1992), the audit committee is one of the best oversight tools and can be used to increase disclosure and decrease agency conflict. As a result, if the audit committee is composed largely of independent outside directors who have financial backgrounds, expertise, and training, they will be more knowledgeable of their responsibilities and the method of oversight will be improved. Abbott, Park, and Parker (2004) found a conflict between the independence of the audit committee on the board and financial reporting.

From the descriptive statistics result in Table 3.1, the average number of independent director on the audit committee is about 6 members, the minimum is 3 and maximum 7. This shows that manufacturing companies in Nigeria does not only have establish audit committee but complied with the NCCG which recommends that majority of the board committee be independent NEDs and minimum of three members for the board committee.

Conclusion and Recommendation

This study investigated the influence of audit committee independence on voluntary disclosure of listed manufacturing companies in Nigeria using annual data from 2015 to 2019 of thirty-three (33) manufacturing companies listed in Nigeria Stock Exchange. The estimation of the static panel model shows that audit committee independence has positive impact on the level of voluntary information disclosed. The study concluded that audit committee independence influences the level of disclosure. There is need for functional and independent

audit committee, this will aid in minimizing agency and monitoring costs. To enhance the audit committee independence, the chairman of the board of directors or managing director or chief executive officer nor any of the executive directors should be member of audit committee.

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