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AUDIT COMMITTEE EFFECTIVENESS AND AUDIT QUALITY: A SYNTHESIS REVIEW OF RELATED LITERATURE

BY

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Abstract

In the wake up to the worldwide and numerous auditing and other financial scandals, a lot of modifications has been performed, recorded, and implemented by various governments and other corporate governance regulators to enhance the quality of company's financial reporting processes, and restore investors' confidence by enhancing the effectiveness of the audit committee. This paper review and synthesizes the major attributes of the audit committee effectiveness in the literature, it centered on regulatory procedures, internal audit functions and the external auditors, and how the recent reforms in some corporate governance influence the additional roles of the audit committee towards corporate accountability and financial reporting quality.

Keywords: Audit Committee Attributes, Internal Audit Functions and Audit Quality.

1.0 Introduction

As one of the corporate governance internal mechanisms, the recent academic debate has focused on ways to understand the usefulness and the effectiveness of audit committee characteristics and how they affect audit quality and financial reporting in general (Haddad et al. 2021; Harris and Williams 2020; Fulop 2019; Zulfikar et al.2020).An audit committee used to play an important role in corporate governance affairs and is known to have help in improving the smooth running of the organization and help users of financial accounting reports in making optimal investment and other financial decisions (Abdullah et al. 2018. Past corporate financial crises and audit failures such as Xerox, Enron, WorldCom, and Afribank in Nigeria have necessitated many countries around the globe to regulate actions of all actors responsible for running companies' affairs, enhance the credibility, and transparency of financial information, quality financial reporting, and greater managerial controls. In line with the above, different codes and laws to encourage good corporate governance were issued in both developed and developing countries. For example, Cadbury report 1992, in the United Kingdom, SOX 2002, in the United States of America, and the revised corporate governance code 2018, in Nigeria to mention a few.

According to the Robin committee (1999), a functional audit committee is critical in guaranteeing the auditors' independence and quality financial reporting. Both Baxter and cotter (2009) as well as Ojo (2014) posit that the aim of any audit committee is to oversee the corporate financial system, uphold its integrity, and assist corporate organizations in improving the financial reporting quality by presenting a true and fair financial statement. In recent years, the functions of the audit committee of providing oversight of financial reporting and audit process have been expanded to include a quarterly financial report, whistle blowing and overseeing external auditors and audit partner's tenure engagement (NCGC, 2018).Due to these additional functions, the audit committee has now been involved more in total corporate reporting oversight than mere financial reporting matters. Prior studies demonstrated that an audit committee should examine internal control and the auditing process. In addition, an independent, effective, and efficient audit committee is likely to reduce audit scandals, and effectively promote the value of the financial reporting systems. (McMullen, 1996; Beasley et al.2000). However, what makes the audit committee to be effective depends on the roles they play and their influence on the corporate board. The rest of the paper is structured as follows: part two, discussed the expanding roles of the audit committee in corporate governance, part three deals with criteria in determining audit committee effectiveness, part four syntheses research of the audit committee and their flaws as well as the agenda for future research direction.

2.0 Corporate Governance and the Expanding Roles of Audit Committee

Historically, every country has the developmental background of its audit committee. However, it has been documented that audit committees evolve rapidly because of the numerous and ever-increasing financial scandals and other audit failures witnessed both at the local and international arena (De Zoort et al., 2002). In Nigeria for example, Section 359(6) of CAMA 1990, stipulates the following as the major functions of the audit committee:

- To ascertain whether the accounting and reporting policies of the company are under legal requirements and agreed with ethical practices.
- Review the findings on management matters in collaboration with the external auditors and departmental/ unit responses if any.

- Review the planning and scope of the external audit requirements.
- Authorize the internal audit department of the company to carry out any investigation as they deem fit.
- Review the effectiveness of the accounting and internal control systems of the company from time to time.
- Make recommendations to the Board regarding the appointment, removal, and remuneration of the external auditors of the company.

In addition to the above, the Nigerian Code of Corporate Governance (NCGC) 2018, recommended that the audit committee should ensure the development of a comprehensive internal control framework and report annually in the audited financial statements, on the design and operating effectiveness of the company's internal control over financial reporting, to ensure that the internal control is adequately designed to substantially reduce the risk of misstatement and inaccuracies in the company's financial statements. However, it has been asserted that many of the audit committee members are ill-equipped to fulfill their functions (Baxter and Pragasam, 1999; Spira, 2002).

It has also been argued that the effectiveness of any audit committee depends on the committee having a strong independent chairman who has the confidence of the shareholders, the board, and the external auditors (ROSC, 2004). In addition, all members are expected to have an understanding of financial statements and generally accepted accounting principles (GAAP), experience in preparing audit and analyzing financial statements as well as understanding internal control over financial reporting and the general functions of the audit committee (NCGC, 2018). In the UK, the Cadbury report (1999) recommended that an effective audit committee should comprise of at least three members, all of whom should be financially literate and at least one of whom should have accounting and management expertise. In the US, the BRC (1999) and SEC (2020) require out of the three (3) or more independent members of the audit committee at least one (1) member must qualify as an expert to avoid having to disclose the reasons why there is none.

Several empirical studies carried out with the help of both the agency and resources dependency theory on audit committee effectiveness have been aligned with factors, like Size, Independence, diversity, and diligence (Hayain and Owusu –Ansah, 2018). Blankley et al. (2014) asserted that the quality of the audit committee is justified by its features such as independence and financial expertise of the members. Audit committee effectiveness has been defined in both the academic circle (Rittenberg and Nair, 1993; Huse and Grethe Solberg 2009), the professional body (PwC, 1999) as well as other corporate governance regulators (CAMA, 1990; NACO, 2000). Current research on audit committee and financial reporting quality by Geraldine and Pauline's (2021) focused on the effectiveness of audit committees and their influence on the financial reporting processes it also dwelled on committee management issues such as the theoretical perspectives, methodology, and its characteristics. Dezoort et al.'s (2002) research was published earlier at the period when audit committee research was still at its infancy stages. They based their framework on the premise that audit committee effectiveness comprises an input, process, and output. They defined audit committee effectiveness as a composition of qualified members with necessary resources and authority, form by the board of directors to protect the interests of the shareholders by ensuring the production of reliable financial reports, safeguard the internal control of the organization and manage any inherent risk through a system of diligent oversight.

3.0 Criteria in Determining Audit Committee Effectiveness

The preceding paragraph above highlighted four major salient ingredients associated with audit committee effectiveness. They are Composition, Resources, Authority and Diligence. We briefly explain each one of them since they are the components that form the major backbone in this literature review.

3.1 Composition

Composition here connotes the number of members expected to form the audit committee from amongst the independent, outside/inside directors of the board. The major important issue is attached to independent outside directors, particularly the chairman of the committee. Different countries vary in the number of members in the committee depending on their corporate governance codes requirements. For example, in Nigeria, Section 359(3) of (CAMA 1990) requires the external auditors of all public companies in Nigeria to make a report to an audit committee which shall be established by all public companies. The committee shall scrutinize the auditor's report and make recommendations to the annual general meeting of the company (AGM).

The same CAMA 1990 section 359(4) stipulated that the committee should consist of an equal number of directors and representatives of the shareholders, subject to a maximum number of six (6).

In the United States of America (USA), US stock exchanges requires the audit committee to be compose of at least three (3) independent directors, one must have accounting or related management expertise. In the UK, the Cadbury report (1999) recommended that an effective audit committee should comprise of at least three members, all of whom should be financially literate and at least one of whom should have accounting and management expertise. In addition, UNCTAD (2006) corporate governance best practice states that the audit committee should not have more than one executive member. The chairman of the committee should be appointed by the committee, who shall be independent of the management and free from any business or relationship, which could materially impede the activities of the independent decision as committee members. Embedded in audit committee composition is the requirement of independence as seen from the above corporate governance codes and corporate governance best practice.

Independence is fundamental requirement that will enable the audit committee to discharge their oversight duties and make objective decision that is paramount to interests of the shareholders. Corporate governance regulators also have emphasis independence as the basis for strengthening audit committee requirements to make it more effective. For example, NYSE as part of the requirement measure to strengthening audit committee effectiveness presented independence and vast audit committee oversight duties (DeZoor et al., 2002), other effectiveness elements in these categorizations are objectivity and integrity of the audit committee members.

3.2 Authority

Authority in the contextual work of DeZoort et al. (2002) deals with the sources of power of the audit committee. Most of the audit committees are form under or, by certain powers or authorities to be supervised by the board of directors. Example in Nigeria the authority is the company and allied matters act 1990.CAMA, 1990) while in the United States of America, the Oxley 2002 Act requires public companies audit committees to be responsible for the appointment and remuneration of external auditors. Other influential authority as per as audit committee is concerned are the professional bodies for example AICPA which provides greater authority an influence over auditors in the area of fraud detection, dispute with management and other issue that centered on corporate illegality.

3.3 Diligence

Kalbers and Fogarty (1993) described diligence as one of the most important attributes of audit committee effectiveness. Extant literature have documented research on audit committee with varying degree of findings.(Beasley et al., 1999; Horton et al., 2000; Agrawal and Sahibi, 2005; FRCN, 2016) in order to carry out their oversight functions and achieve their responsibilities, audit committee must have to ask questions, interact and discuss with management, the internal and external auditors and other groups within and outside the organization, their ability and willingness to make such interaction and work as a team to achieve the overall goal of the organization is what is considered to be audit committee diligence. In other words, given the global expansion of audit committee legislation, number of meetings held in a year is used as a measure of diligence (Abbott et ai., 2004; Al-Najjar, 2011; Sharma et al., 2009).

However, most corporate governance codes do not stipulate requirement in respect of the number audit committees are expected to meet. The Blue-ribbon committee (1999) recommended that for an audit committee to be effective, it should meet not less than four times per year to discuss on the quarterly financial statement. Similarly in Nigeria, the financial reporting council (2016) recommended a maximum of four meeting annually. Research support for frequency of audit committee meeting and audit quality are mixed. For example, Moses (2016) failed to record any significant association between earning management and frequency of audit committee meetings. While Zhang, et al. (2007) research shows a positive relationship between frequency of meeting and audit quality.

3.4 Resources

Apart from the needed expertise, resources with regards to audit committee effectiveness include but not limited to adequate number of staff and their interaction with management. Their wealth of experience, the size and frequency of meetings and their ability to interact and access the needed critical resources. Their objectivity in dealing with other groups within the corporate governance set up is also part of the resources. As part of the expanding role of the audit committee, consideration should also be placed on the finance function as to whether it has been appropriately resourced and equipped with necessary and qualified staff to support the oversight function of the committee. Weak finance function may lack capacity and hamper an effective leadership within the corporate board.

4.0 Audit Quality Measurement and Audit Committee effectiveness

The official recognition of external audit quality as a theoretical framework was first presented in the UK in 2008, after the global financial scandals and audit failure that occurred early in 2000(FRC 2008). Five important drivers of audit quality were identified by FRC (2008). They include,

a) The expertise, skills, and the personal qualities of the audit staff and audit partners

Audit partners and audit staff are expected to be conversant with all the client accounting system, and auditing standard requirements (FRC, 2008; Francis, 2011). Firms should endeavor to recruit staff with the requisite experience and the needed skills and assign them to areas where they best fit during the engagement. This according to Chang and Ye, (2016) will help in identifying audit risk areas in the client system and improve quality.

b) The culture of the audit firm.

Where the required leadership is appropriate, audit firm culture will enhance quality (FRC, 2008). Once the environment is conducive for staff, they will strive to ensure they improve their work performance and serve the public best interest, improve audit quality by improving their audit work (PCAOB, 2012).

c) The effectiveness of the entire auditing process.

Audit process Effectiveness involve the generation of the required audit evidence and a robust audit framework to assign the right person(s) at the right place to carry out the required audit work, including effective review of the required quality control. Laitinen and Laitinen (2015) conclude that where the required audit tools and procedures are suitable and appropriate, relevant evidence will be generated and audit quality will be enhanced.

d) The usefulness and the reliability of the audit report.

According to Fakhfakh (2016), the reliability and the usefulness of the audit report can be enhanced only when the report is clear, concise, and accurate and improves communication between the audit committee and the external auditor. Effective communication between the external auditors and the audit committee helps in identifying the scope of the audit work and provides useful suggestions on ways to improve internal control effectiveness and hence improve audit quality in general (FRC, 2008).

e) Factors beyond the control of the external auditors.

Factors beyond the control of the external auditor are sometimes natural. Other factors that significantly influence audit quality are client-specific factors that cannot be controlled (HKICPA, 2010). For example, where reporting dateline are sufficient and appropriate there is an opportunity to perform all the appropriate audit procedures and generate the required audit evidence at ease and form an audit opinion as compared to unlimited time (Prawitt and Wilks, 2005). Thereafter, in an attempt to measure external audit quality, previous literature used various factors such as the output of the audit services (Knechel et at., 2012). Others used proxies such as skills, knowledge, experience, and audit process effectiveness to measure audit quality (Samuel, 2012; Akhidime, 2015). Meaningful collaboration and interactions between the internal, external auditors, and corporate governance board, (internal audit and audit committee) there is the likelihood that audit quality can be improved.

4.1 Audit Committee and Audit Quality

There has been assertion that the effectiveness of any audit committee depends on the major outcome and quality of the financial process (Carcello et al., 2011). An effective audit committee is capable of influencing the efforts of the external auditing processes and monitors the chief executive opportunistic tendencies that may hinder the attainment of quality audit. This research is timely, because of the new roles the audit committee assumed in both the emerging and developed economies of the world. In addition, research of this nature can awaken the regulatory authorities, the academic, as well as professional accounting practitioners to be enlightened and be more proactive since audit committee is now an important element that seeks to improve the effectiveness of the entire corporate governance in ensuring accurate and reliable financial reporting processes.

To achieve the intended objective, we conceptualized our framework to reflect on the association between the internal corporate governance attributes and audit committee characteristics that may result in audit quality and restore investors' confidence. It is worthy however, to note that no single model for audit committee be it the new legislation or additional regulatory inspection will guarantee its effectiveness, only adoption of good and faithful governance practice will enhance audit committee effectiveness.

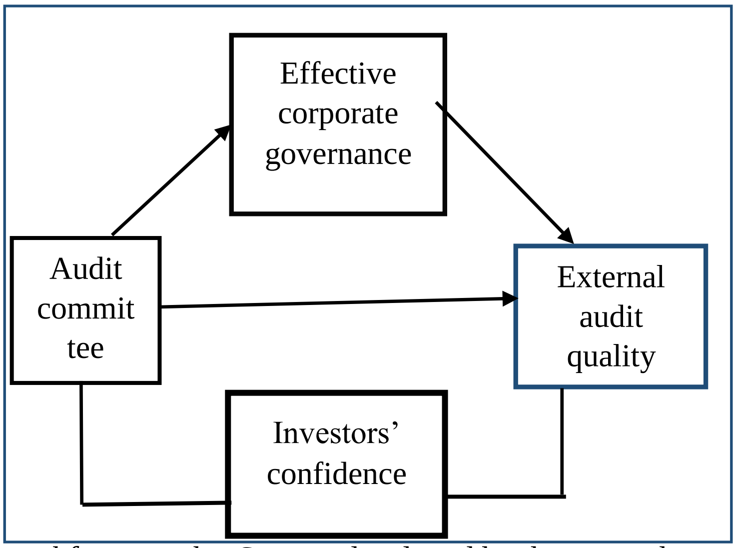

Fig.1 Conceptual framework Source: developed by the researcher

It has been asserted that companies do not fail because of poor audit quality (Moses, 2016). Auditing is only meant to enhance the credibility of the financial reporting. It does not absolve corporate managers from their primary duties and other responsibilities. Corporate failure are the resultant weakness of poor or bad governance and decision making (Soyemi et al., 2021) Therefore, to enhance audit committee effectiveness, organization need to effectively improves in their governance system above the minimum requirements. Effective and efficient audit committee is critical to ensuring trust and confidence to company shareholders and other potential investors. Their responsibilities vary widely across nations and companies. Apart from their core financial reporting functions and oversight responsibilities, they are now under intense pressure in terms of both time and expertise to oversee risk management as part of the standard best practice.

The efficacy of any audit committee depends on the committee having a resilient independent chairman who has the assurance of the shareholders, the board, and the external auditors (ROSC, 2004). It has been asserted that many of the audit committee members are inept to fulfill their functions (Baxter and Pragasam, 1999; Spira, 2002). The corporate scandals that affected many countries particularly the US and the UK could not be avoided despite the presence of the audit committee, however, the said scandals have triggered major changes in corporate governance in many countries. Extant research profile has shown a catalog of research that investigated how audit committee characteristics like gender, diligence size, and independence impacted on audit quality with the help of both agency and resource dependency theory (Fama and Jensen, 1983; Boyd, 1990; Cohen et al., 2008; Hayain and Owusu –Ansah, 2018). Blankley et al. (2014) also asserted that the quality of the audit committee is justified by its features such as independence and financial expertise of the members. Agrawal and Sahiba (2005) posited that the educational level of the audit committee members positively influences the ability of the client to request for audit quality.

Prior literature on audit committee characteristics and their influence on audit quality recorded mixed and inconsistence findings. For example, Hillman et al. (2007) claimed that audit committee members with accounting and financial qualifications have a strong tendency to secure the services of the big-4 auditing firm because they have the capability of understanding financial reporting issues. In contrast, Chen, and Leung (2012) research documented a negative association between level of education and client's demand for a quality audit. They concluded that educated audit committee members are not conservative in making the decision and may like to collaborate with high management in manipulations. Karamanoun and Vefeas (2005) posited that audit committee diligence enhances the process of monitoring the effectiveness of the financial reporting processes.

Research by Goodwin and Kent (2006) and that of Hoistash and Hoistash (2009) concluded that audit committee diligence can enhance the ability of the committee to focus more on the firm's activities and enhance quality reporting. Alqudah et al (2019) viewed the audit committee as the most important organ of any corporate governance mechanism. Apart from protecting the shareholders' financial interest, they also provide direct and quick communication between external and internal auditors. In this regard, they help in avoiding any information asymmetry between them (Azman and Kamaludin, 2012).

Klien (2002) in his contribution, emphasizes that, the role of the audit committee is to monitor and oversee the financial reporting processes, he concluded that they achieve their monitoring roles through persistent meetings with the external and internal auditor, and other financial managers on matters about internal controls and audit processes. Dezoort et al. (2002) are of the view that an effective audit committee could easily facilitate the reliability and accuracy of the financial reports, improves risk management and internal control procedures. Both Mcmullen (2017) and English (2018) concurred that firms with audit committees that are independent and active may greatly minimize the incidence of fraud and other fraudulent financial practices. Cohen, et al (2017) in their exploratory interviews with some auditing practitioners' show their concern over the effectiveness of audit committees in resolving conflicts with management unless the committee is fully independent. Cadbury (1992) recommended that, for the audit committee to be effective, a significant number of the member if not all, must be independent of the influence of the management. Badawy and Aly (2018) research indicate that quality audit is positively associated with audit committee when they are independent.

Earlier empirical research on the relationship between the frequency of audit committee meetings and quality audits produced mixed results. For example, Zhang, et al. (2007) research shows a positive relationship between frequency of meeting and audit quality. The FRCN (2016) recommended a maximum of four (4) meetings annually in Nigeria. This translates into at least one (1) meeting in each quarter of a year. Abbott, et al. (2004) found empirical support between the audit committee's frequency of meetings and audit fee and earning quality. In contrast research by Bedard et al. (2004) failed to record any significant relationship between higher frequency of meetings and earning reporting quality measures. In addition, while Lin et als'. (2006) research failed to record an association between earning management and regularity of audit committee meetings, and that of Moses (2016) recorded an insignificant relationship between earning management and frequency of audit committee meetings. A recent meta-analysis research finding by Lin and Hwang (2017) lent a strong backing to some of the research above, supporting a negative association between numbers of committee meetings and earning management.

TABLE 1. *Summary of relevant research findings of audit committee characteristic*

Audit Committee Characteristics	Year/Author	Variables	Sources/Type of Data	Methodology	Country/Region	Findings
Expertise	Ghafran an Sullivian (2017)	Audit fees	Archival	FTSE 350/250 Firms	United Kingdom	Impact of financial expert members is associated with higher audit fees in FTSE250
	Mustafa and Ben Youssef (2010)	Earning management	Archival	Asset of publicly held companies	United states of America	Result revealed that percentage of financial expert members and the percentage of independent members in the audit committee were inversely associated with the probability of misappropriation of assets.
	Zhang, et al. (2007),	Internal control	Archival	208 companies with material internal control weaknesses from compustat	United states of America	Firms with less audit committee financial experts are more likely to have internal control weaknesses
	Abbott, et al. (2004),	Re statement	Archival	88US companies annual accounts without allegation of any fraud	United states of America	There is significant negative association between audit committee with at least one member with financial expertise and restatement.
	Lisic et al. (2018)	Internal control weakness	Archival	Accelerated filers (US companies with more than	United states of America	Audit committee members financial expertise is negatively

				£75 million) with available audit opinion on internal control		associated with internal control weaknesses when the chief executive power is low
Frequency of meeting	Gebrayei et al. (2018)	Earning Management	Archival	71 non-financial firms with 139 observations from MUSCAT Security market	Oman /Asia	The result shows audit committee frequency of meetings and presence of internal audit functions is positively associated with financial reporting quality.
	Mohammed (2018)	Financial re instatement	Archival	700 firms listed in Bursa Malaysia	Malaysia /Asia	The show that frequency of meetings is negatively associated with financial statement re instatement
	Moses (2016),	financial reporting quality	Archival	15 banks on the list of Nigerian stock exchange	Nigeria/Africa	The results show an insignificance statistical relationship between audit committee frequency of meeting and quality financial reporting
	Alzuban and Sawan (2015)	Internal control	Survey questionnaire	542 questionnaires to CIAs of UK listed companies on the London stock exchange	United Kingdom	The result show that perception of implementing the internal audit recommendations are influence by the frequency of meetings between the audit committee and the chief

						internal auditors.
	Soliman and Ragab (2014)	Earning management	Archival	50 non- financial firms listed on the Egyptianstock market	Egypt /Africa	Audit committee meetings has a negative impact on earning management
	Goodwin and Kent (2006)	Audit fees	Archival	Over 400 Large and small listed Australian firms	Australia /Asia	Frequency of audit committee meetings is related with higher audit fees
	Vefeas and Waegelien(2007)	Audit fees	Archival	Fortune 500 US firms (2001-2003) proxy reporting period	United states of America	No significance association between audit committee members' frequency of meetings and higher audit fees.

Audit committee characteristic	Research year/Author	Variables of Interest	Sources/type of Data	Methodology	Country/Region	Findings
Size	Isah and Farouk, (2018)	Earning management	Archival	15 money deposit Banks	Nigeria/Africa	Audit committee size has significant effect on Earning management.
	Jerubet and Tenai (2017)	Audit quality	Archival	46 listed firms in Nairobi security market	Kenya / Africa	Positive relationship between audit size and quality audit was recorded

	Shankaria and Almiri (2017)	Discretionary accrual	Archival	133 companies listed in Bombay stock Exchange (BSE)	India/ Asia	Result shows a negative association between audit committee size and discretionary accruals
	Yasser and Al- Mamum (2016)	Earning Management	Archival	240 Firms from Malaysia, Australia, and Pakistan	Asia pacific	the number of audit members is negatively related to earning management rate
	Vlaminck and Sarens (2015)	Financial reporting quality	Archival	60 Belgium firms (2008-2009)	Belgium/ Europe	Audit committee size is not related with financial reporting quality
	Piot and Janin (2007)	Earning Management	Archival	SBF 120 Index French companies (1999-2001)	France	There is a significant association between composition and mitigation of earning management
Independence	Mehdi et al. (2021)	Financial reporting quality	Archival	558 firms observed from TSE listed companies	Iran	No significant influence between audit committee independence and corporate financial reporting quality
	Al-Hadrami et al. (2020)	Investment decision	Survey	409 respondents from 39 listed companies in Bahrain	Bahrain/Asia	Audit committee independence is found to be significant and positively associated with an investment decision-making
	Khudhair et al., (2019)	Quality audit	Archival	Non-financial firms	Iraq/ Asia	There is a positive relationship between non-executive director in the executive director in the audit committee and quality audit

	Desoky and khasharmeh (2016)	Financial reporting quality	Survey questionnaire	A total of 313 respondents to 4 selected groups	Bahrain	Shows a positive relation between audit committee members independence and quality financial reporting
	Cohen et al (2016)	Quality financial reporting	Archival	342 well-informed investors	United states of America	It was found that social and industry expertise affect audit committee independence and the financial reporting quality
	Chee et al., (2017)	Earning management	Archival	175 non-financial firms	Malaysia/Asia	Post –IFRS Audit committee Independence do not mitigate Earning management
	Christ et al. (2015)	Quality audit	Interview and OLS	11 chief audit executive and 2 audit committee members	United states of America	Audit committee oversight can reduce the negative impact of a rotational staffing model for the internal audit functions on the financial reporting quality.
	Koholga et al. (2015)	Quality financial reporting	Archival	6 purposively listed money deposit banks in Nigeria	Nigeria	Audit committee independence strongly influences financial reporting quality
Diversity	Nizam et al. (2021)	Quality financial report	Archival	302firms listed in Pakistan Stock Exchange market	Pakistan/Asia	Result shows accounting expertise of female chairs of audit committee improves financial reporting quality better than their male colleagues

	Vincent et al., (2019)	Quality audit	Archival	50 quoted companies' non-financial companies	Nigeria / west Africa	Positive relationship between female representative on board and quality audit
	Zalata et al. (2018)	Earning management	Archival	5660 US firms drawn from Compustat files	United states of America	There is an association between female director in the audit committee and earning management
	Canyon and He (2017)	Financial reporting quality	Archival	Over 3,000 US firms	United states of America	There is a positive correlation between companies' performance and gender diversity. female representation on boar and audit committee improves firm performance and financial reporting quality.
	Fernandez Mendez et al. (2015)	Audit fees	Archival	684 Austrian listed firms (2001-2011)	Australia /Asia	There is no relationship between female member present in the audit committee and higher audit fees
	Sun et al. (2011)	Earning management	Archival	525 firm-year observations (2003- 2005) from 175 firms On US compustat	United states of America	No significant relationship between female representative on board and earning management

4.2 Internal audit function and External Audit Quality

Section 61(1,2, and 3) of the Nigeria investment and securities Act 2007 as amended to date as well as the Codes of corporate governance Act 2018, all places strong emphasis for public companies to establish Internal Audit units to help in the evaluation of their internal control effectiveness. The proper and robust organization of the internal audit unit according to Venables and Impey (1991) provides the governance board with the best means of ensuring proper control of the business. The objective of any internal control according to Osezie (2004) is to assist management to effectively discharge their responsibilities by providing them with necessary appraisal and honest recommendations concerning the activities they reviewed. Internal audit is one of the most important aspects of the modern global corporate governance financial control system.

Beijide (2016) claimed that an effective internal audit is capable of improving and maximizing the safeguard of organization assets and reduce overhead costs. Fadzil et al. (2005) viewed that internal auditors help in running the company more efficiently and increase the shareholders' wealth abundantly. The need for internal audit roles in organizations varies according to such factors as the complexity of the company's activities, the number of employees, and the cost/ benefits consideration by the organization's management (ICAEW, 1999).As one of the key components of the internal corporate governance processes, internal audit nowadays concentrates on the interrelation between all components in the governance process particularly the external auditing (Almari, 2018; Mat Zain et al; 2015; Akinteye et al.2015).

Though there is quite a distinction between the roles played by the internal audit and that of the external audit, there are many ways the two collaborate and interact to improve the level of control, reduce financial misstatement, fraud and enhancing audit quality (Goodwin-steward and Kent, 2006; Abbott et al., 2016; Khelil et al., 2018). The two also seek advice and help each other in the course of discharging their responsibilities (Kamardin, 2016; Edge and Farley, 1991). In addition, advocates for the complementary relationship between internal and external audit reported that internal audit is likely to be associated with high-quality external audit and the existence of internal audit functions is positively related to audit fees indicating that external and internal audits are not substitute to each other but rather a complementary mechanism (Mat Zain et al., 2015 and Garcia et al, 2019).

Agency theorists such as Jensen and Meckling (1976) believed that the cardinal purpose of internal audit is to promote confidence, enhances monitoring, accuracy, trust, and reliability of any firms' financial reporting processes. They also provide a systematic framework for the evaluation of various interrelationships in a firm or organization. Thus, the perception of the internal auditor as an agent of the principal (shareholders) who report to the audit committee that is in -charge of the monitoring processes and ensures that management does not betray the trust reposed on them by the shareholders fit into this study. Further, resources dependency theory assumes that audit committee particularly a large one, owing to the various backgrounds of members may possess the skills, expertise, and knowledge that would contribute and assist the company to obtain the critical resources required in producing high-quality audits, and to minimizing the inherent environmental risks (pfeffer1972; Pearce and Zahra 1996).

The contribution of the internal audit in preventing frauds and errors depends on the quality and the effectiveness of the internal audit (Khelil et al., 2016) previous empirical research has documented varying degrees of constructs concerning an internal audit, for example, Akinteye et al.'s (2015) research focused on factors such as quality of work performed, competency, and objectivity. Abdullah and Faudziah (2014) examine four major factors of internal audit functions that include the size of the internal audit, qualification, competency, and independence. Felix et al. (2001) and Messier et al. (2011) in their research claimed that the dependence of the external auditor on the work of an internal auditor can translate into lower external audit fees.

In addition, a study by Mohammed et al. (2012) in Malaysia on the influence of internal audit work and competency and how it influences external audit discovered that the trust of external auditors on the work of an internal auditor was found to have related to a reduction in audit fees. In his research on the experience and qualification of internal audit staff, De Zoort(1998) concluded that inexperience and non-knowledgeable staff may find it challenging to trace fraud and other irregularities in the internal audit processes. This, in his opinion, may lead to the publication of a falsified financial report that may mislead users in making an investment decision. Similarly, research by Alzeban (2015) concluded that an internal audit department equipped with qualified personnel is more likely to discover and minimize the incidence of fraud. In his research on internal auditor's independence and its impact on the credibility of financial reporting in Nigeria, Adebayo (2017) using both primary and secondary data, and analyzed the data using chi-square, the finding of research revealed a positive relationship between the independence of the auditor and the credibility of the financial statement.

In similar research, Coram et al.'s (2018) research on internal audit and quality of financial statements showed that independence has an influence on the quality of the financial report. In contrast, Payamta's (2006) research documented a negative relationship between internal audit independence and quality financial reporting. A study by Asaodu et al. (2016) on the internal audit functions and good governance in Nigerian public companies using survey data and analyzed using correlation and multiple regression method, the result revealed that internal audit moderately influences good governance and hence quality audit. Similarly, Changway and Rotich (2015) examine the roles of internal audit in promoting effective governance in some Kenyan commercial Banks. Using a survey design, the result revealed a positive and significant association between internal audits and effective governance.

As part of the expanding roles of the audit committee in Nigeria for example, the new corporate governance code recommended an anonymous whistleblowing policy to assist in detecting fraud or any weakness in the internal control system and requires that any such revelation is heard and tackled internally (lee and Fargher, 2018). This expanding role of the audit committee has made academicians focus their research on internal audit, external audit and corporate management and the audit committee at both local and international levels (Ghafran and Sullivan, 2013; Soyemi et al., 2021). The importance of informal interaction between the internal audit functions and the audit committee to strengthen the oversight in the production of high-quality audits has long been stressed (NCGC code, 2018; BRC, 1999; PCAOB, 2004; MEDEF Code, 2016).

Prior research has investigated this informal interaction see for example (Tueley and Zaman, 2007; Bertin and Godowki, 2012). Research evidence support for the interaction and the interrelationship between the audit committee, the management, and the external auditor has been documented (De Zoort et al., 2008; Brown- Liburd et al., 2016; Gold et al., 2018). Most of the research highlighted the importance of audit committee influence on the negotiation process that involves management and external auditors. This suggests that an audit committee should be strong to effectively support the external auditor in the process of providing high-quality audits. Brown-liburd and Wright (2011) observed that for an audit committee to be effective, it must have an influential power that can be perceived by the interested parties in the reporting processes. It has also been asserted that a strong audit committee persuades managers to behave less aggressively towards the external auditor (Brown- Liburd et al., 2016). In another research by Gold et al. (2018) in the Netherlands, it was discovered that investor estimates to audit engagement change must consider the powers given to the audit committee in the auditor's selection procedures. Indicating a strong involvement of audit committee in the rotation or mandatory tendering of external auditing work (NCGC, 2018).

Cohen et al. (2010) Conclude that audit committees play a more inert role when it comes to dispute resolution between external auditors and management. To concur with the above assertion, Beattie et al.'s (2015) research failed to find any support between audit committee, external audit and management interactive linkages, they concluded that the audit committee plays rather a docile and ritualistic role and even fail as an arbiter in the audit/ client engagement process.

Beasley et al. (2009) posit that apart from the unique role of overseeing the financial reporting quality, the audit committee can also serve to provide legitimacy to the governance system of the company as viewed from the institutional theory (Maggio and Powell, 1983). Sarens et al. (2009) conclude that the skills and knowledge of the internal auditors may lead to a reduction of the audit committee's discomfort in understanding the major technicalities of the internal control system because they make a decision-based suit to the peculiarities of the audit committee. In their studies, Boyle et al. (2015) pointed that audit committee effectiveness influences internal auditor behaviors and subsequently the entire management decision-making processes.

4.3Research Synthesis and Agenda for Future Study

4.3.1 Research Synthesis

Evaluating the members of the committee is one of the major shortcomings of the audit committee. Should members be evaluated based on publicity available such as job titles and certification or rather on complete independence and their expertise on the job? Research is also lacking concerning the trust and integrity of members. The objectivity of members is another grey area that needs to be addressed. While it is true based on the research by Haka and Chalos (1990) that agency conflict more especially in areas relating to discretionary accounting procedures does exist, the result findings of Kalbert and Fogarty (1993) cast doubts to the specific areas where powers and authority will come from. Only a few research addressed the issue of the association between audit committee effectiveness and audit committee authority and the delegation of audit committee authority to internal auditor, and the result was also inconsistent.

Audit quality and auditors' credibility are associated with firm size (Knapp, 1987). A structured communication policy in a firm between internal auditors and audit committee is likely to improve good corporate governance and audit quality (Dezoort et al., 2000). A higher-quality audit is associated with an increase in audit committee support for external auditors in audit/ management disagreement. It also indicates the importance of internal audit support and interaction in enhancing audit committee effectiveness that includes the relationship between internal support and reduction of audit fraud. However, majorities of research in this area failed to address the issue of information and outside advisory services. Audit committee interaction with the external audit is projected as a mere surrogate for quality.

In addition, the expanding role of the audit committee as earlier mentioned has generated a debate. For example, some experts are suggesting forensic examination while others are advocating the hiring of consultants to handle the whistle-blowing policy in Nigeria. Other researchers only relied on voluntary disclosure (Turpin and De Zoort, 1998). Concerning audit committee diligence, the most common proxy used is the frequency of meetings per year or quarterly. In Nigeria for example it was recommended that the audit committee should meet every quarter amounting to four (4) times in a year. Abbott and Packer (2010) for instance link frequency of meeting with external auditor's nomination. Others consider the interaction between the audit committee and other firms' variables (Menon and Williams, 1994). Diligence is difficult to measure, though apart from the frequency of meeting or disclosure as mentioned earlier, other factors such as motivation, environmental safety, security of members, and incentive have received only a little or no attention from researchers.

4.3.2Agenda for Future Study

Though in Nigeria the issue of audit engagement tenure has recently been addressed the issue of audit committee governance expertise critical and analytical thinking regarding corporate tax policies deserves more investigation (Hsu et al., 2018). The tenure of audit committee members and whether such variable has an impact on committee effectiveness has not been extensively researched. Researchers should endeavor to concentrate on the new expanding role of the committee relating to the whistle-blowing policy as well as the member's security concerning audit committee effectiveness.

Secondly, with the new informational technology (ICT) policy concerning corporate governance and the current threat to data security in Nigeria for example, such critical issues need urgent research attention (IFA, 2016). Research in this domain would help to identify other drivers of an effective audit committee more technically and competently, and improve on their oversight functions, the research on members competency, and the need to protect company's information from unauthorized users as earlier suggested by (Horton et al., 2000).

Research regarding authority that focuses on the interrelationship between major actors in the corporate governance is also limited as observed from our review, there is the need for research to focus on how and why the certain association is related to audit committee effectiveness. Research in the areas of external/internal audit and corporate management and how these relationships impact the audit committee authority and delegation will be a good starting point. The call for external intervention by a consultant as observed in the review highlighted the urgent need for information to the audit committee to discharge their responsibilities. Researchers need to focus on how an audit committee will be provided with quality information and communication flow. Not only that, to achieve the required effectiveness research that focuses on ways of evaluating audit committees and the support needed from those outside advisors is urgently necessary.

Thirdly, frequency of meeting commonly used as a proxy for diligence as observed in our review is necessitated by lack of measurable constructs as diligence is very complex to measure. Researchers need to consider alternative and innovative variables such as sitting allowance, agenda for the meeting, attendance, and many other innovating proxies that will make audit committee members more independent in the corporate setting. We also observed that the majority of the research were done in the United States of America (USA). From our review of thirty-Two (32) relevant literature about 32.25 percent were from the United States. This calls for a paradigm shift for researchers to focus on audit committee performance research more especially in emerging economies on both private, public, and other multinational companies to assess the impact of factors such as culture, policies, expertise, and how they impact on audit committee effectiveness. Trend analysis study will be a good starting point in this direction as it will allow for example external auditors to focus on global level audit committee in evaluating organizational risk (Cohen et al., 2017)

Finally, it has also been observed in our review that the majority used secondary data (archival). Statistically out of the thirty-two (32) studies reviewed, only a meager 9.38 percent used the survey method the remaining 90.62 percent utilized data from archival records. However, this may not be unconnected with the fact that accessing directors may be an upheaval task and probably lack a trusted analytical modeling tool (Dezoort et at., 2002). Research direction should now focus on the survey as other alternative methodologies can prove useful and provide insight into the relationship between various research constructs and audit committee effectiveness.

5.0 Conclusion

While prior literature has provided the required insights on audit committee effectiveness and quality audit, our review will add to existing literature and the opportunity for other researchers in understanding this unique area of research. With the continuing expanding of the regulatory and other professional roles in trying to find an effective audit committee, audit committee research will continue to attract both the regulatory authorities, the academics, and other professionals in auditing development to identify research constructs that may likely improve the entire corporate governance domain.

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