International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 6, June 2015
http://ijecm.co.uk/ ISSN 2348 0386

BOARD STRUCTURE, CORPORATE CHARACTERISTICS AND AUDIT QUALITY OF NIGERIA BANKS

Augustine Akhidime
Benson Idahosa University, Department of Accounting, Benin City, Nigeria
aakhidime.biu.edu.ng, dr.augustine@akhidime

Abstract

This study examined the impact of board structure and corporate characteristics of Nigeria banks have on their audit quality. The study is based on the published audited accounts of 19 banks that were selected by simple random sampling technique from the population of the 25 Nigerian banks over the banks' post consolidation/reformfive- year period. The variables of the study were analysed using binary logistic regression analysis. The hypotheses of the study were tested using F-ratios from the results of the pooled binary regression of the pooled data at 5% level of significance. Results of the study confirm that non-executive, independent directors and director's share ownership positively impact on the banks' audit quality. The study recommends for an upward review of the proportion of non-executive directors as well as the optimum size of the boards of the banks.

Keywords: Board Structure; Audit quality; Non-executive directors; Corporate characteristics; Nigerian Banks; Executive Directors

INTRODUCTION

The socio-economic consequences of the spate of global corporate scandals and collapses, particularly as witnessed in Nigeria banks from the late '80's to 2009 has brought to the fore the importance of the link between the monitoring roles of the Board of Directors and audit quality of Nigeria banks. Poor performance of board of directors and audit failures have been implicated in the spate of distresses and failures of Nigerian Banks (CBN-NDIC, 1995; CBN, 2009).

Issues about the structure of the board of directors first, as a corporate governance mechanism and secondly as relevant to the effective financial controls and good audit quality in Nigeria banks has received considerable attention from academics, market participants, and regulators. In view of the importance attached to the institution of effective corporate governance, the Federal Government of Nigeria, through her various agencies came up with arrangements that do not only protect the investors' investment but also to guarantee the integrity of banks' financial reports. The institutional arrangements produced the Bankers Committee's "code of corporate governance best practices" in 2003, and lately by Central Bank of Nigeria, CBN, post consolidation 2006 Code of Corporate Governance. The codes proposed that banks should be managed by effective Board composed of qualified individuals that are conversant with its oversight functions and to be comprised of executive, non-executive and independent directors at prescribed proportions. The CBN Code expects the Audit Committee to be constituted of non-executive directors and ordinary shareholders appointed at AGM and some of them should be knowledgeable in internal control processes. Such Audit Committee should be responsible for the review of the integrity of the bank's financial reporting and oversee the independence and objectivity of the external auditors.

While there are many studies on the relationshipbetween board structure, corporate characteristics and audit quality in non-banking ('unregulated') firms in and outside Nigeria, not much empiricaly robust study known to the researcher has been done on post-consolidation Nigeria banks.Therefore, the problem of identifying and explaining the link between the board of directors and audit quality in Nigeria bank has remained unresolved. The limited understanding of the nature of the impact that board structure has on the audit quality of banks in Nigeria constitute the knowledge gap that this study seeks to fill with empirical evidences.

Objectives of the Study

The broad objective is the determination of the impact that the structure of the board has on the audit quality of the Nigeria Banks. The specific objectives of the study are to:

1. determine the impact that the size of the board has on the audit quality of Nigeria banks.
2. examine the impact that the proportion of Non-Executive/outside Directors in the Board has on audit quality of Nigeria banks.
3. investigate the impact of share ownership of Executive Directors on the Audit quality of Nigeria Banks.

Research Hypotheses

The null hypotheses stated below were tested.

Ho_1. There is no significant impact of the size of the board of directors of Nigeria banks on the audit quality of the banks.

Ho_2. There is no significant impact of the proportion of non-executive directors/outside members in the board on the audit quality of Nigeria Banks.
Ho_3. There is no significant impact of executive directors' share ownership on the audit quality of Nigeria banks.

Significance of study

This study is considered relevant and significant for the fact that its subject matter, board structure and audit quality, are fundamental to corporate financial reporting integrity which is critical to the quality of investment decisions that affect the development of financial and capital market as well as the growth and stability of both the national and global economy. Also, since the nature of the board of directors and poor audit have jointly been implicated in the distress experienced by Nigeria banks in the past, study like this will also provide a basis for improvement as well as forestall the incidence of distresses in Nigeria banks in the future.

LITERATURE REVIEW

The board of directors is considered as the highest-level of control mechanism in an organization because they possess the ultimate power to review the decisions that are made by the top management and ensure that the institution has adequate systems of internal controls.(Fama& Jensen, 1983; CBN, 2003).Independent directors are non-executive directors that have no equity or financial stake in the firm. Every institution is expected to be headed by an effective Board that can lead and control the institution (CBN,2003;CBN, 2006).

The definition of board structure as given by Tricker (1994) is the one adopted by this study. He posits that board structure distinguishes between those directors who hold management positions in the company and those who do not. Those with management positions are known as executive directors in the United Kingdom and insider directors in the United States .

In the selection of external auditors, the board of directors usually collaborates with management subject to the ratification of shareholders. The external auditor is expected to liaise with the board (as its client) through the audit committee that is expected to review the overall planned audit scope and proposed audit fee (Blue Ribbon Committee 1999; Public Oversight Board, 1994; CBN,2006). The board also may influence audit quality through other means that involve vigilant oversight that may impress on management and the auditor that the expectations placed on the audit firm are very high. The auditors evaluation of the quality and expectation of the board may well affect the quality of services rendered. Given the board's oversight of the financial reporting and audit processes, prior literature links certain board characteristics to adverse financial reporting outcomes (Beasley,1996; Dechow, Sloan, & Sweeney 1996).

Several characteristics of a board may influence their effectiveness in their monitoring role. These characteristics are: composition and share ownership, executive and non-executive directors and independent directors and size of the board.

Non-executive Directors

Non-executive directors are associated with the responsibility for monitoring managers and thereby reducing agency costs that arise from the separation of ownership and control in day-to-day company management (Fama, 1980; Fama and Jensen, 1983). The importance of non-executive and independent directors is underscored by CBN code of corporate governance that stipulates that the number of non-executive directors on the board of banks should be more than those of executive directors and that at least two (2) non-executive board members should be independent directors (who do not represent any particular shareholder interest and hold no special business interest with the bank), (CBN, 2006). Thus, higher proportions of independent and non-executive directors on boards are expected to induce a more effective monitoring function which then leads to more reliable financial statements. This is due to the incentive for non-executive and independent board members to develop reputations as experts in decision making (Fama & Jensen, 1983) and to provide an unbiased assessment of a management's actions. Their study explored board independence based on the agency theory. The Study by Adeyemi and Fagbemi (2010) on quoted non-banking Institutions in Nigeria showed that the governance variable of non-executive directors' ownership have significant relationship with audit quality

The studies of O'Sullivan (2000) and O'Sullivan & Diacon (2002), found that the proportion of non-executive directors had a significant positive impact on audit quality and suggested that non-executive directors encouraged more intensive audit as a complement to their own monitoring role while the reduction in agency costs expected through significant managerial ownership resulted in a reduced need for intensive auditing.

The study of Adelopo (2010) on non-banking institutions established a significant positive relationship between the proportion of non-executive directors, a measure of board composition, and total fees paid to auditors. This result indicates that the higher the number of independent non-executive directors there are on the board, the higher the total fees (both audit and non-audit) that are earned by the auditor from their client. The result suggests that rather than reduce the value of services purchased from the external auditors, non-executive directors will signal preferences for auditing and reporting quality and for auditing coverage by buying more services from the auditors in order to signal transparency to the market and boost market confidence in the reports of the firm. Furthermore, maintaining or buying more services from the auditors may help non-executive directors to preserve their jobs and consequently their human capital worth. This is because more services bought from the external auditors may aid early detection of financial misstatements and errors or fraud and so prevent corporate misbehaviours. O'Sullivan (2000); Mitra, Hossain and Deis (2007) also found a positive in terms of finding a positive relationship between the proportion of non-executive directors and auditors' fees although they reported statistically insignificant positive relationships. Carcello and Nagy (2004) also found a positive relationship between board characteristics and higher audit fees. On the other hand the result conflicts with the findings in Tsui, Jaggi and Gul (2001) who found a negative relationship between board independence and audit fees.

Size of Board of Directors

Board size is believed to be very fundamental to effective corporate decision making (CBN, 2003; CBN, 2006). Optimum board size of between a minimum of 5 and a maximum of 20 members have been prescribed at various times by codes of corporate governance of quoted companies, banks and financial institutions in Nigeria. Vafeas (2005) suggests that the size of a committee and the performance of the directors have a non-linear relationship. A board that is too small or too large is likely to be ineffective (CBN, 2003). Lipton and Lorsch (1992), for example, recommended that the ideal size of a board should not exceed eight or nine directors. Jensen (1993) claims that when a more than has beyond seven or eight members, it is less effective due to the problems of coordination and process which, in turn, contribute to weak monitoring. Although average board sizes are relatively large, prior studies have shown that smaller boards are more effective as directors can communicate better on them and they are easier to manage. These factors promote a more resourceful conversation.

With regards to audit quality studies, Abbott & Nagy. (2004) suggested that the firms with smaller board size experience a lower incidence of restatements as the smaller boards contribute to effective communication and there is less likelihood of a communication breakdown. This suggests that when board members communicate effectively, they reduce the incidence of mi understanding and consequent errors, and that they are more sensitive to the issues that may affect their shareholders or investor's confidence, particularly concerning financial reporting issues.

It is the view of Carcello et al. (2002) that members of boards of directors who have more experience in terms of a higher number of directorships are more likely to demand high-quality audit work. Chtourou, Bedard and Courteau (2001) claim that the directors with a higher tenure of board experience are less likely to be associated with earnings management. Both studies conclude that higher levels of board expertise lead to a higher monitoring incentive. This has made it imperative for only people of proven integrity and who are knowledgeable in business and financial matters to be recommended for on the board appointment by the CBN code of corporate governance (CBN, 2006). Study by Adeyemi and Fagbemi (2010) on quoted companies in Nigeria confirmed the significant relationship btetween governance variable of board and audit quality.

Relationship between board of directors and audit quality

The selection of an external auditor, according to several studies, can be influenced by Boards of directors and audit committees (Beasley &Petroni, 2000; Chen, Firth, Gao, and Rui, 2005; Abbott and Parker, 2000). The skills and abilities of auditors in enhancing the audit process form the basis of the selection criteria. The examination the behaviour of audit committee members and their choice of external auditors by Knapp (1991) revealed that audit committees appear more likely to choose Big 8 auditors than non-Big 8 auditors because the Big 8 auditors are inclined to report any material misstatements that they discover during their auditing work.

The specific characteristics of boards and audit committees with respect to the selection of industry specialist auditors was examined by Abbott and Parker (2000), Beasley and Petroni (2001) and Chen, Firth, Gao and Rui (2005) .

Industry specialist auditors are more desirable because they are more reliable than non-specialist auditors for detecting errors and frauds (Carcello & Nagy, 2004). The proportion of independent non-executive directors on boards and audit committees as well as the audit committee meetings was studied by Abbott and Parker (2000). They suggested that the audit committees with solely independent non-executive directors that meet at least twice a year are more likely to employ industry specialist auditors. They reported also that insignificant relationship existed between the proportion of independent non-executive directors on boards and the employment of industry specialist auditors. The investigation of the characteristics of the boards and audit committees of the top 500 Australian firms Chen et al. (2005), revealed that an audit committee with a higher percentage of non-executive directors is more likely to employ industry specialist auditors. Abbott et al. (2004) suggested that financial restatement may signal inefficiency of financial reporting because it indicates that auditors have failed to identify errors in prior financial statement. Kinney, Palmrose, and Scholz (2004) claim that such inefficiency can be regarded as indicatior of a lower quality of financial reporting and auditing.

Studies of the effect of board structure on audit quality are however done outside Nigeria and on foreign non-financial corporate bodies in the US and UK. The results of these studies could therefore not be generalized due to differences in the legal environments, institutional settings, and auditor incentives in these countries and Nigeria.

By utilising the measurement of audit quality (the engagement of Bank industry specialist auditors), this study shall be examining the impact of the board structure with respect to the size, share ownership and proportion of executive and non-executive directors on audit quality of Nigeria banks. Consistent with the evidence and the theoretical bases for the measurement of audit quality the present study views the engagement of industry specialist auditors (Carcello and Nagy, 2004) to be associated with a higher quality audit..

Agency Theory

Agency theory is obviously the dominant paradigm that has been used widely in different aspects in Corporate Governance studies and analyses (Davies, Schoorman, & Donaldson 1997). This theory is rooted in the works of Berle and Means (1932) on the separation of firm ownership from management and often credited to the landmark work of Jensen and Meckling (1976) and Fama and Jensen (1983). They suggested that Agency problems will always arise in circumstances where the Principal (owners, shareholders) employs the Agent (board/management) to undertake a number of duties on their behalf for a reward. Thus management in acting in the capacity of an Agent to the Principals owe the Principal a fiduciary duty of care to run the organization in the best interests of the owners for a given reward (Berle and Means, 1932; Jensen and Meckling, 1976) argue however, that conflicts of interest do inevitably exist between the management and owners of businesses especially in cases where owners are not managers. This is because the Agency theory assumes a model of manager as a man that is self-interest-seeking, self-serving, individualistic and opportunistic in nature, who only prefers to maximise his personal utility functions at the expense of the owners (Principals). As a result, the theory is built on the assumption that there almost exist always a divergence of objectives between the goals of the management and those of the shareholders. Agency problems could also arise due to adverse selections and moral hazards (Meckling and Jensen, 1976). Moral hazard refers to a situation where due to imperfections in the contract between the agent and the principal, management may take sub-optimal decisions and may be opportunistic, (Adelopo, 2010).

While Moral hazards tend to happen after the contract, adverse selection may occur both before and after the contract between the principal and the agent (Ibid). Adverse selection refers to the possibility of shareholders hiring agents who do not have the right type and kind of skills that may enable them to deliver expected returns, (Adelopo, 2010). This may be due to the existence of information asymmetry between the parties or inherent imperfections in the contracting process (Gomez-Mejia & Wiseman, 2007).Given that shareholders have risk attitudes that is different compared to management (Jensen & Meckling,1976), the continuous existence of information asymmetry may compel the principal to impose some forms of controls. These control mechanisms usually require the allocation of resource while in addition it tend to increase the costs of operations, often referred to as the agency cost. Other forms of Agency problems can manifest in a number of instances within the organisation, particularly in diversification and investing decisions and in decisions relating to mergers and acquisitions (Lane, Cannella & Lubatkin, 1998). This can manifest in management's tendencies to prevent suitable offers in furtherance of their own interests at the expense of the shareholders' (Buchholtz & Ribbens, 1994). The primary concern is to increase the returns available for sharing among the residual claimants through the reduction or minimisation of the agency cost of operations.

RESEARCH METHODOLOGY

The study adopted the longitudinal and expo-factor research designs. These research designs were adopted due to the fact that the study sought to establish the relationship between dependent and independent variables of the study. Data used are secondary in nature covering specific time limit in the past resulting to the non- controllability and non- manipulability of data of the study.

The twenty five (25) listed consolidated banks that emerged from the CBN 2005 bank reforms formed the population of the study. A sample size of 19 banks(as shown in Table 1 below) was selected from the population through simple random sampling method. The study relied on secondary data, extracted from the audited published annual account and reports of the banks over the financial period from 2005 to 2009, all inclusive**.**

Table 1: Banks under the study

1	Access Bank Plc.	11	SkyeBankPlc
2	Eco bank Nigeria Plc.	12	Zenith Bank Plc
3	Fidelity Bank Plc.	13	Diamond Bank Plc
4	First City Monument Bank Plc.	14	UBA Plc.
5	Sterling Bank Plc.	15	Stanbic/IBTC Bank Plc
6	Guarantee Trust Bank Plc.	16	First Bank of Nigeria Plc.
7	Wema Bank Plc.	17	Unity Bank Plc
8	Inter-Continental Bank Plc.	18	Bank PHB Plc.
9	Union Bank of Nigeria Plc.	19	Afribank Plc.
10	Oceanic Bank International Bank Plc.		

Conceptual underpinnings of the linear probability model

The data collected were analysed using inferential statistics that consisted of probit andbinary regression techniques. The regression takes the form of :

$AUDMSL = \alpha_1 + \beta_1 BRDSIZE + \beta_2 BRDIND + \beta_3 NEDOWN + \beta_4 BRDMEET + \beta_5 AUCMEET + \beta_6 BDOWN + \beta_7 LNASSET + \beta_8 LEVERG + \beta_9 ROA + \varepsilon$..................*(1)*

$BAUDSPEC = \alpha_2 + \beta_{10} EDOWN_{11} NEDOWN_{12} BRDIND + {}_{13}LE\text{-}VERGE + {}_{14}LNASSET_{15} BRDSIZE + \varepsilon$................*(2)*

Where α_1, α_2 ,α_3,> 0,are constants for the 2 models, and the coefficients as listed for the models are to be estimated while the *appriori signs of* the variables β_1, β_2, β_3; β_4, β_5 β_6,β_7,β_8, β_9, β_{10}, β_{11}, β_{12}, β_{13}, β_{14} , $\beta_{15} < 0$.

Dependent variable

AUDMSL=*Industry Market share Leader(proxy for audit quality);*

Hypothesis independent variables

BRDSIZE= the numbers of board members during the year.

NEDOWN= the proportion of non-executive directors on board to Board size;

BRDMEET= the number of board meetings during the year;

Control variables

BDOWN= proportion of ordinary shares owned directly by directors on the board;

LNASSET = natural logarithm of total assets;

LEVERG= proportion of debts to total assets;

ROA= return on assets;

BAUDSPEC =Industry specialists. KPMG or PWC;

EDOWN= Executive directors' ownership :based on percentage of share owned by the executive directors in relation to the issued capital of the bank;

BRDIND=Board independence: measured by the composition/numbers of non-executives in the board of directors in the form of percentages;

NEDOWN= The non-executive directors' ownership based on percentage of share owned by the non- executive directors in relation to the issued capital of the bank;

LEVERAGE= proportion of debts to total assets;

BRDSIZE=Number of members of the board.

Definition of variables

The dependent variables of the study is Audit quality with audit market leader ***AUDMSL*** and bank audit specialist **BAUDSPEC** as its proxies. The dependent variables of the two models is dichotomous. Audit quality in model one is equal to (1) if the information obtained from banks' audited financial reports is audited by the banks' Audit Market Leader, and otherwise (0). Audit quality in model 2 is Bank audit market leader. Audit quality is equal to (1) if the information obtained from banks' audited financial reports is audited by KPMG or PWC and otherwise zero (0).The choice of KPMG and PWC banks as bank audit specialists is based on GOA(2003) classification. This operationalisation follows the approach used in prior studies models of Defond (1992) and Owhoso, Messier and Lynch (2002), that used industry specialist auditors as a function of agency cost, audit risk and firm business complexities.

The choice of the independent variables are based on the previous studies of Beasley and Petroni (2001); Wan Shahnaz, & Nurasyikin, (2008). The independent variables consist of board size (***BRDSIZE)***, board independence, (***BRDIND)***was measured through the composition of non-executives in the board of directors in form of percentages. ***NEDOWN*** was measured as the percentage of ordinary shares owned by non- Executive Directors in relation to the issued capital of the company. ***BDOWN*** was measured as the cumulative percentage of shares owned by the directors of a firm. **EDOWN** was measured as the percentage of ordinary shares owned by Executive Directors in relation to the issued capital of the company executive and non-executive share ownership an proportion of independent non-executive members in the board. The inclusion of other variables like size of the bank, measured by the logarithm of banks' assets, ***LNASSET*** and leverage of the bank, **LEVERGE** measured asTotal Debt /Total Assets and return of assets, ***ROA,*** measured by the percentage of total profit before tax to total assets, was based on the study of Kane and Velury (2002) which showed that these variables have significant relationship with audit quality.

ANALYSIS AND RESULTS

The findings were subjected to the robustness tests for multicollincarity, auto-correlation Heterosecdasticity. The two models of the study were estimated with the aid of E-VIEW-7 and the hypothesis were tested, using F-Ratio from the results of the OLS regression of the pooled data at 5%.

Tables 1 & 2 below present the summary of the models. The pooled logistic regression result of model 2 in Table 1 suggest that there exist a positive relationship between BRDSIZE, BRDIND, and ROA with auditors market share leader (AUDMSL). This means that the larger the size of the board of the banks the more the likelihood of the banks to engage one of the audit market share leader (AUDMSL). Only BRDSIZE and LNASSETS however had statistically significant relationship at 5% level, while other variables were not statistically significant.

Table 1. Pooled Binary Logistic Regression Analysis : Model 1

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-2.636976	2.089085	-1.262264	0.2069
BRDSIZE	0.200716	0.079877	2.512807	0.0120
BRDIND	0.685055	2.634323	0.260050	0.7948
BRDMEET	-0.101621	0.126865	-0.801018	0.4231
LNASSETS	-2.49E-12	1.26E-12	-1.982297	0.0474
LEVERG	-0.950895	0.758424	-1.253778	0.2099
ROA	3.888861	3.312751	1.173907	0.2404

Table 2 : Pooled Binary Probit regression result: Model 2

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-28.97095	21.55335	-1.344151	0.1789
EDOWN	40.42738	28.46349	1.420324	0.1555
NEDOWN	0.482344	0.478705	1.007601	0.3136
BRDSIZE	-0.245347	0.209560	-1.170776	0.2417

The result from the pooled logistic regression in model 2 (Table 2) suggests that there exist a positive relationship between EDOWN, NEDOWN, LNASSETS and LEVERG with bank industry specialist (BAUDSPEC). This means that banks with higher proportion of executive and non-executive directors share ownership on the board the more likely for the banks to employ bank industry specialist auditors, and the larger the size of the bank the more likely their employment of bank industry specialist auditors. Only BRDSIZE had an inverse relationship with bank industry specialist (BAUDSPEC).

Tables 3-5 below present summary of the tests of the three hypotheses of the study using F-ratios from the regression result at a 5% level of significance. The hypothesis tests in Tables3-5 confirms that there is significant impact of the size, board independence, non-executive and executive director's ownership on the audit quality of Nigeria banks.

Hypothesis 1

There is no significant impact of the size of the board of directors on the audit quality of Nigeria banks.

Table 3. Test of Hypothesis 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.202189	15.45486	0.530719	0.5970
BRDSIZE	3.950894	1.062386	3.718887	0.0004
AR(4)	0.641662	0.108669	5.904727	0.0000
R-squared	0.466592	Mean dependent var		57.08421
Adjusted R-squared	0.454469	S.D. dependent var		36.02666
S.E. of regression	26.60930	Akaike info criterion		9.432810
Sum squared resid	62308.84	Schwarz criterion		9.515586
Log likelihood	-426.1929	Hannan-Quinn criter.		9.466205
F-statistic	38.48851	Durbin-Watson stat		1.550011
Prob(F-statistic)	0.000000			

Hypothesis 2

There is no significant impact of board independence on the audit quality of Nigeria banks.

Table 4. Test of Hypothesis 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	77.75388	21.16623	3.673488	0.0004
BRDIND	-31.44810	33.48666	-0.939123	0.3502
AR(1)	0.622879	0.079654	7.819848	0.0000
R-squared	0.355436	Mean dependent var		55.66849
Adjusted R-squared	0.341270	S.D. dependent var		36.30087
S.E. of regression	29.46257	Akaike info criterion		9.635513
Sum squared resid	78991.92	Schwarz criterion		9.716682
Log likelihood	-449.8691	Hannan-Quinn criter.		9.668299
F-statistic	25.09041	Durbin-Watson stat		2.224885
Prob(F-statistic)	0.000000			

Hypothesis 3

There is no significant impact of non-executive directors' share ownership on the audit quality of Nigeria banks.

Table 5. Test of Hypothesis 3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	59.47263	7.347497	8.094272	0.0000
NEDOWN	-11.20129	12.89871	-0.868404	0.3875
AR(1)	0.619595	0.076244	8.126512	0.0000
R-squared	0.348996	Mean dependent var.		55.66849
Adjusted R-squared	0.334688	S.D. dependent var.		36.30087
S.E. of regression	29.60940	Akaike info criterion		9.645456
Sum squared resid	79781.22	Schwarz criterion		9.726625
Log likelihood	-450.3364	Hannan-Quinn criter.		9.678242
F-statistic	24.39203	Durbin-Watson stat		2.185767
Prob(F-statistic)	0.000000			

CONCLUSION

This study aimed at carrying out an empirical investigation of the impact of board structure and corporate characteristics on audit quality of Nigeria banks. In achieving this aim, the study obtained data on corporate governance variables that were believed to have relationship with the audit quality of Nigerian banks. These variables include BRDSIZE, EDOWN, NEDOWN, LNASSETS and LEVERG, BRDIND and ROA. On the bases of these variables, hypothesis were postulated.

Results from the study (as shown in Table 1-5) confirm that non-executive directors, Independent directors, directors ownership and Bank size have significant relationship with audit quality of Nigeria banks. This result is consistent with the findings of O'Sullivan & Diacon, 2002; Olayiwola. 2010; Adelepo, 2010; Adeyemi & Fagbemi, 2010, on studies of non-bank entities in and outside Nigeria.

The study validates the proposition of the agency theory that non-executive and independent directors in the exercise of their monitoring functions demand for higher quality audit from the auditors which enables them to constrain fraudulent financial reporting and improve financial reporting quality.

Therefore, this study recommends for an upward review of the proportion of non-executive directors as members of the board of Nigeria banks, as well as the need for banks' regulatory agencies to review the minimum size and the qualities expected of members of boards of Nigeria banks.

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