PDF - EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON FINANCIAL REPORTING QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA - researchcub.info**CHAPTER ONE**

INTRODUCTION

1.1Background to the Study

Corporate financial report provides fundamental information to a wide range of groups; its main purpose is to provide information which is supposed to give a true and fair view of the management's stewardship, company's performance and financial position for the various users of the information to make informed economic decisions (America Accounting Association, 1961). Financial reporting is the process by which corporate entities provide interested parties (users) with information on their transactions during an accounting period (Mbobo & Ekpo, 2016). Among the interested parties are shareholders, creditors, tax authorities, customers, financial analysts, and lenders. The parties need quality financial reports for economic decision making.

Financial report is one of the major means that corporate management uses in communicating financial information for a given period. In this regard, the International Accounting Standard (IAS 1) states that the purpose of financial reporting is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Such information is communicated through financial statements. Ibadin and Dabor (2015) stated that financial statements show the results of the management's stewardship of the resources entrusted to it by revealing economic information on assets, liabilities, equity, income and expenses, including gains and losses; contributions by and distributions to owners in their capacity as owners; and cash flows. Such information, along with

other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing.

Moreover, accounting information contained in the financial statements is one of the very essential information needed by various stakeholders especially investors for making informed economic decisions. Investors in search of investment avenues use the accounting information contained in the financial statements of the intended investing company in pricing of shares. Market participants seek high-quality financial reporting or information to mitigate information asymmetry as such quality information should be a pre-requisite for a well-functioning capital market. Thus, companies that provide high-quality information have an added advantage in their rating in the capital market (Ibadin & Dabor, 2015).

The increasing demand for quality financial reporting creates the need for effective and efficient monitoring mechanisms. This is necessitated by the conflict of interest between managers, who serve as agents and resource holders, who serve as principals, wherein, managers carry out activities that are counter-productive in the realization of the interests of resource holders. Therefore, board of directors is instituted to monitor the activities of managers. The board sets several monitoring measures that will ensure the integrity of management’s decision. One of committees is the audit committee. The quality of the monitoring process depends on effectiveness of the audit committee. The effectiveness of audit committee in exercising its monitoring role is defined as the extent to which they perform their duties which is associated with their characteristics (Dechow, Sloan & Sweeney, 1996; Beasley, 1996; Carcello & Neal, 2000; Klein, 2002). An effective audit committee ensures the provision of credible accounting information to financial statement users by constraining earnings management by managers (Dandago & Rufai, 2014).

It is in line with increasing loss of credibility of financial reports that the banking industry, through the Central Bank of Nigeria also developed its code, the recent of which is the CBN Code of Corporate Governance of 2006 (Ibadin & Dabor, 2015). Specifically, the code requires that companies should establish audit committees consisting of directors and shareholders. Under the code, audit committee is saddled with the responsibility of reviewing the scope and result of audit, the independence and objectivity of the auditor, among others. In spite of this, the quality of financial reports of banks has continued to be an issue of concern.

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