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Audit Committee and Sustainability Reporting of Listed Deposit Money Banks in Nigeria

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Abstract

To ensure the existence of generations unborn, sustainability practice is crucial. In the accounting profession, sustainability reporting is critical as it makes the reporting entity aware of its actions. Hence, the main focus of this study was to examine the effect of the audit committee on sustainability reporting of listed deposit money banks in Nigeria. The study population comprised thirteen listed deposit money banks and nine were selected as sample. The ex-post facto research design was adopted and secondary data was extracted from the audited annual reports for the years 2013 to 2022. Multiple regression was used to measure the effect of the audit committee on sustainability reporting of listed deposit money banks in Nigeria. The result shows that the audit committee size, the meeting frequency of the audit committee and the level of independence of the committee all have a positive effect on the level of sustainability reporting. It is concluded from this study that the audit committee does have a significant influence on the sustainability reporting of listed deposit money banks in Nigeria. It is recommended that the audit committee should be comprised of more independent directors.

***Keywords**: Audit committee gender composition, Audit committee independence, Audit committee meeting frequency, Audit committee size, Stakeholders*

1. Introduction

The changing business landscape across the globe has led to an increasing demand from investors and major stakeholders for companies to disclose their activities around environmental, social, and governance (ESG) factors. Sustainability reporting, which involves the disclosure of a company's environmental, social, and governance practices and their impacts, has become an important means to assess an organization's long-term viability and contribution to its immediate location of operations and society as a whole. In Nigeria, Deposit Money Banks (DMBs) listed in the Nigeria stock exchange are no exception to this trend. The DMBs are subject to growing pressure to incorporate sustainability reporting into their corporate governance practices, and their audit committees play an important role in ensuring the accuracy and transparency of these reports. Although researchers have conducted studies on the relationship between audit committee and sustainability reporting in Nigeria, most of these studies were conducted using an earlier timeframe. Hence, this study intends to fill the time gap in the literature. Finally, this study, therefore, explores the impact of the audit committee on the sustainability reporting of listed DMBs in Nigeria.

2. Conceptual Review

Sustainability Reporting

Sustainability reporting encompasses the disclosure of information relating to an organization's environmental, social, and governance performance (Githaig & Kosgei, 2022; Haque, 2017; Herda, Taylor, & Winterbotham, 2012). These reports provide stakeholders with insights into an organization's commitment to ethical business practices, environmental conservation, and social responsibility. Jaturat, Dampitakse, and Kuntonbutr (2021) opine that in today's business environment, sustainability reporting has evolved from a mere compliance requirement to a strategic tool that can enhance an organization's reputation, attract investors, and foster trust among stakeholders.

According to Audu (2021), sustainability reporting initially focused primarily on environmental issues, motivated by regulations and pressure from environmental activists. However, the development of global reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) has standardized reporting practices. The introduction of integrated reporting has helped to integrate financial and sustainability information to provide a holistic view of a company's performance (Usman & Yahaya, 2023).

Many countries now require listed companies to report on sustainability issues, reflecting the growing importance of these disclosures. In Nigeria, the regulatory framework for sustainability reporting has evolved over the years with the Securities and Exchange Commission (SEC), the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN) playing critical roles in establishing guidelines and standards for sustainability reporting (Yahaya et al., 2022; Araissi, Dah, & Jizi, 2016; Chinonyelum & Ndubuisi, 2022).

According to Abdullahi and Makama (2021), the SEC issued a rule in 2019 that mandates listed companies, including DMBs, to provide annual sustainability reports as part of their annual reports. These reports are expected to align with global best practices, such as the Global Reporting Initiative (GRI) Standards or the Sustainability Reporting Guidelines of the International Integrated Reporting Council (IIRC) (Umukoro, et al., 2019). The FRCN on its part has incorporated sustainability reporting into its Code of Corporate Governance, which applies to public interest entities, including listed companies. This code emphasizes the importance of integrating sustainability considerations into a company's strategic objectives and corporate governance practices (Usman & Yahaya, 2023; Audu, 2021). Similarly, the CBN in its circular dated September 24, 2012, directed all banks, discount houses and development finance institutions houses to implement sustainable banking practices and reporting.

Audit Committee

Audit Committees within listed DMBs play a crucial role in the sustainability reporting process. Abdulwahab et al., (2023); Toluwa and Oseikhuemhen (2023); Baroroh et al., (2022); Mujiani and Rohmawati (2022); Zainabu et al., (2022); Adegboye et al., (2020); Marx and Van Der Watt (2011) opine that the responsibilities of audit committee comprised of the following key areas:

Oversight of Sustainability Reporting: Audit Committees are saddled with the responsibility of overseeing the entire sustainability reporting process. This includes reviewing the organization’s sustainability policies, assessing the accuracy and completeness of sustainability data, and ensuring compliance with relevant regulations and standards.

Assessment of Materiality: Audit Committees also collaborate with management to determine which sustainability issues are material to the company. Materiality assessments help identify the most significant ESG factors that should be included in the sustainability report.

Risk Management: The Committee also reviews the organization’s ESG risks and their potential impact on financial performance. This encompasses understanding how sustainability risks can affect the company's long-term financial viability and communicating these risks to shareholders.

Independent Verification: Audit Committees as part of their mandate consider whether an independent third-party verification of sustainability reports is necessary. This can enhance the credibility of the report and provide assurance to stakeholders.

Stakeholder Engagement: Audit Committees in the course of their job function also ensure that the company engages with stakeholders, including shareholders, employees, customers, and communities, to understand their sustainability concerns and expectations. This information can inform the content of the sustainability report.

Integration with Financial Reporting: The Audit Committee oversees the integration of sustainability reporting with financial reporting to present a comprehensive view of the company's performance. This includes ensuring that ESG metrics are accurately and transparently reflected in financial statements.

Zainabu et al., (2022) believe that the integration of sustainability reporting into the corporate governance practices of listed DMBs in Nigeria is becoming increasingly important. As such, companies now face growing pressure from stakeholders to disclose their ESG practices; therefore, the role of the Audit Committee in ensuring the accuracy, transparency, and credibility of sustainability reports cannot be overemphasized (Chinonyelum & Ndubuisi, 2022). By carrying out their duties diligently, Audit Committees can help listed DMBs not only meet regulatory requirements but also enhance their reputation, attract investors, and contribute positively to society and the environment (Adegboye et al., 2020).

3. Theoretical Review

This study considers agency theory and stakeholder theory which is used to explain the relationship between audit committee and sustainability reporting.

Agency Theory

Agency Theory has long been the foundation for understanding the dynamics of corporate governance. It evaluates the principal-agent relationship in organizations, exploring how conflicts of interest may arise between those who own a company (principals) and those who manage it on their behalf (agents). Agency Theory, was introduced by Jensen and Meckling in their seminal paper, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," in

1976. The theory has since become a fundamental framework for analyzing and addressing the challenges of corporate governance. According to Fama and Jensen (1983), Agency Theory has informed discussions on board composition and independence. A study by Yermack (1996) explores how the presence of independent directors like the Audit committee can mitigate agency problems by providing objective oversight. This oversight encompasses financial reporting, sustainability reporting, risk management and business continuity of the organization (Baroroh et al., 2022).

Although the Agency Theory has provided valuable insights into corporate governance, it is not without its critiques. Donaldson (1989) argues that it oversimplifies complex human relationships and behaviours. Additionally, scholars (Jones & Felps, 2013; Greenwood & Empson, 2003; Williamson, 1985) have recognized that corporate governance challenges extend beyond the principal-agent framework, leading to the development of more comprehensive theories like Stewardship Theory and Resource Dependency Theory.

Stakeholders Theory

This theory is a crucial framework that guides organizations in recognizing and managing their relationships with various stakeholders beyond just shareholders. One of the central tenets of Stakeholder Theory is the identification and categorization of stakeholders. Freeman (1984) emphasizes the need to recognize various stakeholder groups, which include employees, customers, suppliers, communities, and regulatory bodies, among others. Kakabadse and Kakabadse (2007) argue that Stakeholder Theory has influenced discussions on board diversity and composition, emphasizing the inclusion of directors who represent various stakeholder groups. The Stakeholder Theory has led to calls for greater accountability and transparency in corporate practices. Scholars such as Phillips (2003); and Post and Preston (2002) highlight how organizations are adopting reporting mechanisms to communicate their social and environmental impacts to stakeholders. Thus, this study is hinged on the stakeholders' theory as it clearly explains how audit committees influence the sustainability reporting of organizations through their oversight function and responsibilities.

4. Review of Extant Literature

Some studies (Hasan et al., 2022; Yahaya et al. 2022; Baroroh et al., 2022; Adegboye et al., 2020; Abdulwahab et al., 2023; Mujiani & Rohmawati 2022; Toluwa & Oseikhuemhen 2023) have examined the relationship between audit committee characteristics and sustainability reporting. These studies have found that audit committee independence, size, and expertise have a positive effect on sustainability reporting. For example, a study by Yahaya et al. (2022) found that board independence is positively associated with sustainability reporting in Nigeria. In the same vein, Hasan et al., (2022) investigated the determinants of corporate sustainability reporting decisions. The researchers used a logistic regression model to analyze data collected from a sample of 138 firms listed on the Pakistan Stock Exchange for the years 2009–2018. The study finds that firms with more gender-diverse boards, larger audit committees and higher institutional ownership are more likely to issue sustainability reports. The study also finds that concentrated ownership, managerial ownership, foreign ownership and audit committee independence negatively influence the firms' sustainability reporting decisions. The study although gave insights to understanding the relationship between audit committee and sustainability reporting, it did not specify the industry where the selected firms used are drawn as each industry has its peculiarities in terms of regulations.

Baroroh et al., (2022) empirically tested the effect of the size of the company on the disclosure of sustainability reports with the audit committee serving as a moderating variable. Twenty-one (21) companies were selected as samples for the study using the purposive sampling technique. The results show that the company size has a negative effect on the disclosure of sustainability reports but the audit committee can enhance the effect of size on sustainability report disclosure. However, the study failed to show the duration of the period used in the analysis thereby making it difficult to ascertain if other extraneous factors could affect the study. The gap in the Baroroh et al., (2022) was bridged by Mujiani and Rohmawati (2022) who examine how good corporate governance affects the disclosure of sustainability reports in mining companies listed on the Indonesia Stock Exchange between 2017 and 2020. The study concludes that the Audit Committee has a positive and significant impact on the disclosure of the sustainability report. However, there was no theoretical review to underpin the study.

Adegboye et al., (2020) evaluate the effect of audit committee characteristics on the sustainability disclosure among listed banks in Nigeria. The study used the Fixed Effect regression estimator of panel data for ten (10) listed banks in Nigeria for 2014–2016. The result shows that the effect of audit committee independence and gender diversity of the audit committee has a significant effect on the sustainability disclosure. However, the audit committee's magnitude has a significant negative effect on the sustainability disclosure. Although the paper was rich in methodological approach, there was no theoretical review to underpin the study. Relatedly, Abdulwahab et al., (2023) employed a correlational research design to investigate the effect of corporate governance committees (finance, risk, remuneration and audit) on corporate sustainability reporting by analyzing a sample of 20 consumer goods firms in Nigeria. The study shows that audit committees have a positive significant relationship with sustainability reporting of listed customer goods in Nigeria. The study, however, used a correlational design to determine the relationship between the audit committee and sustainability reporting without determining the impact as well as the cause and effect.

While examining the impact of audit committee attributes and sustainability reporting covering a range of nine (9) years period (2014 – 2022), Toluwa and Oseikhuemhen (2023) conclude that audit committee size has a significant negative impact on sustainability reporting. The study also finds that audit committee independence and audit committee meetings have a negative but insignificant impact on sustainability reporting, but audit committee multiple directorships have a positive and significant impact on sustainability reporting. The paper however was devoid of theoretical underpinning

5. Methodology

The research design adopted for this study is the *ex post facto* research design. The population of this study is made up of the thirteen listed deposit money banks in Nigeria as at December 31, 2021. The sample size of nine was purposively selected based on the availability of information in the financial report. Secondary data was collected over the last ten years which ranged from 2013 to 2022 which is the most current timeline and an attempt to update literature. The multiple regression model is used to analyze the effect of audit committee on sustainability reporting compliance among listed deposit money banks in Nigeria. The regression model is specified below:

$SR = \beta_0 + \beta_1 SZ + \beta_2 MF + \beta_3 GR + \beta_4 IC + e$

Where

SR = Sustainability Reporting Compliance (Dependent variable)

β_0 = intercept when the independent variables is zero

$\beta_1 SZ$ = Audit committee size (Independent variable)

$\beta_2 MF$ = Meeting Frequency (Independent variable)

$\beta_3 GR$ = Gender (Independent variable)

$\beta_4 IC$ = Independence (Independence variable)

e = Error term

Table 1. Measurement of Variables Table

Variable	**Type of Variable**	**Measurement**
$\beta_1 SZ$ (Size)	Independent	Total number of individuals on the statutory audit committee
$\beta_2 MF$ (Meeting Frequency)	Independent	The number of times in a year that the committee meets
$\beta_3 GR$ (Gender)	Independent	The ratio of the female gender to the male gender on the statutory audit committee
$\beta_4 IC$ (Independence)	Independent	The proportion of the independent directors to the total number of members on the committee
SR (Sustainability Reporting)	Dependent	The level of compliance with the GRI in sustainability reporting

Source: Researchers Compilation (2023)

Table 1 above shows how the various variables were computed and represented in this study.

6. Data Analysis and Discussion of Findings

The result of the data analysis is presented below:

Test of Hypothesis

H_0: Audit committee does not have a significant influence on the sustainability reporting of listed deposit money banks in Nigeria.

Table 2. Regression Result

Dependent Variable: SR	**Coeff.**	**Std. Err**	**T-Stat**	**Prob.**
Constant	0.529	0.066	7.96	0.000
SZ	0.013	0.009	1.48	0.142
MF	0.014	0.007	1.58	0.118
GR	-0.139	0.055	-2.50	0.014
IC	0.141	0.041	3.42	0.001
Adjusted R^2	0.1167			
F-Stat	$F_{(4,85)} = 3.94$			
Computed P- Value	0.0055			
Root MSE	0.0675			

Source: Researchers Computation (2023)

Table 2 shows that the audit committee explains approximately twelve percent of the compliance level of sustainability reporting of listed DMBS in Nigeria. This implies that eighty-eight percent of the other factors not considered in this study have an influence on the sustainability reporting level of compliance among listed DMBs in Nigeria. The result further shows that audit committee size, the meeting frequency of the audit committee and the level of independence of the committee all have a positive effect on the level of sustainability reporting. However, it is only the level of independence on the audit committee that has a significant effect on the level of sustainability reporting compliance. The result further shows gender has an inverse significant influence on the level of compliance of sustainability reporting of listed deposit money banks in Nigeria. Overall, the result shows that the computed p-value (0.0055) is lower than the set p-value of 5%. Therefore, the null hypothesis is rejected and the alternate hypothesis which states that 'audit committee does have a significant influence on the sustainability reporting of listed deposit money banks in Nigeria' is retained.

Discussion and Policy Implication of Findings

Based on the result of the analysis which shows in summary that the audit committee does have a significant influence on sustainability reporting of listed DMBs in Nigeria. The result is consistent with the stakeholders' theory which shows that firms are to consider the interest of not only the shareholders but other participants in the business environment that contribute to the existence of the business. The result of this study is in tandem with the views of (Hasan et al., 2022; Yahaya et al. 2022; Baroroh et al., 2022; Adegboye et al., 2020; Abdulwahab et al., 2023; Mujiani & Rohmawati 2022; Toluwa & Oseikhuemhen 2023) who all opined that audit committee independence has a positive effect on sustainability reporting. However, they opined that audit committee size has a significant influence on sustainability reporting which is contrary to the finding of this study which shows that audit committee size does not have a significant influence on sustainability reporting among DMBs in Nigeria. The reason for the variance in the finding can be a result of the difference in the study population and timeframe when compared to others. Furthermore, Audu et al., (2022) that gender composition does have a significant influence on financial reporting, this study similarly corroborates their position by showing that gender also has a significant influence on sustainability reporting. However, it shows that the more female members make up the composition of the audit committee, the less likely they comply with sustainability reporting. Hence, to enhance sustainability reporting, there is a need to engage more male members on the audit committee. Finally, this study shows that many other factors influence sustainability reporting. Despite that, the result shows that audit committees also have a significant influence on sustainability reporting.

7. Conclusion

The primary focus of this study is to examine the effect of audit committee on sustainability reporting of listed deposit money banks in Nigeria. The outcome from the analysis shows that the audit committee size, the meeting frequency of the audit committee and the level of independence of the committee all have a positive effect on the level of sustainability reporting. In addition, the level of independence of the audit committee has a significant effect on the level of sustainability reporting compliance. The result also shows gender has an inverse significant influence on the level of compliance of sustainability reporting of listed deposit money banks in Nigeria. It is concluded from this study that the audit committee does have a significant influence on the sustainability reporting of listed deposit money banks in Nigeria.

8. Policy Implication and Recommendation

From the result of this study, it indicates that audit committee size, meeting frequency and independence should be encouraged as they all have a positive effect on the level of sustainability reporting. On the other hand, the result shows that the male gender should be encouraged more as members of the audit committee as the more they are, the higher the level of sustainability reporting compliance among listed DMBs in Nigeria. Based on these, the following recommendations are given:

i. The board of directors should ensure that the audit committee meet frequently;
ii. The board should also ensure that members that retire or exeat from the committee are replaced quickly;
iii. The board is advised to ensure more male participation in the composition of the audit committee; &
iv. The board should allow for more independent directors on the membership of the audit committee.

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