

Audit Committee Attributes and Whistle-Blowing Policy

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ABSTRACT

There is limited evidence about the association between audit committee (AC) characteristics and effective whistleblowing policy. In light of the above, this study explores the relationship between AC and the effective whistle-blowing policy in Nigerian Banks. The study uses a period of ten years (2009 to 2019). It employs a logistic regression technique in the analysis. Data for the study were found from the listed banks' yearly reports. The results revealed that firms that have AC composed of independent directors, have more financial experts, and meet regularly are more likely to have an effective whistleblowing policy. Moreover, a larger AC is associated with a weak whistleblowing policy. Therefore, it is recommended that regulators such as the Security and Exchange Commission (SEC) and the Nigerian Central Bank (CBN) should ensure stringent compliance of their codes of corporate governance on AC composition as both of them recommend the existence of autonomous directors and financial experts in the AC. However, the findings and recommendations are only applicable to listed banks in Nigeria. For this reason, further research may be needed to be conducted on the AC attributes in other sectors like manufacturing firms.

KEY WORDS: Audit Committee Attributes, Nigerian Banks, Nigerian Central Bank, Whistle-Blowing Policy

1. INTRODUCTION:

Financial scandals and the collapse of some multinational companies result from such unethical practices as financial malpractice, mismanagement of funds, poor working environment, and other forms of corporate governance breaches (Kehinde & Osifo, 2017; Lee & Hooy, 2020). A whistleblowing form is vital in detecting and preventing unethical conduct and violations of laws and regulations. The prominent advocates for whistleblowing maintain effective environmental control of organizations. Kehinde and Osifo (2017) argue that the whistleblowing mechanism

is crucial to putting a stop to operative measures, where organizations deem it necessary to constitute internal control structures that are pertinent in giving account of illegitimate practices. Whistleblowing refers to the reporting of staff that misuse their influence, commit peccadillos, and use their power for personal accomplishment. Therefore, concealment or destruction of whistle blower's evidence shall be condemned or receive punitive sanctions depending on how intense the case is (Yang, Yang, Chen, & Li, 2020).

There are several unethical activities in the Nigerian banking industry that need to be investigated. Most recently, among others was in 2018, which involved Diamond Bank plc and Skye Bank plc scandals in 2016. Moreover, Diamond Bank failed because of three factors: bad leadership, ineffective risk management, and lack of board independence (Tekedia, 2019). Therefore, the researcher considers it important to focus on the effect of audit committee attributes and whistle blowing policy of listed deposit money banks in Nigeria.

In view of the above, the CBN Guidelines for Whistle-blowing for Banks and other Financial Institutions (2012) mandates all banks to incorporate whistle-blowing policies as part of their quarterly reporting

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requirements. The essence of this directive is to ensure integrity in the banking sector's financial activities and to conform to the universal Corporate Governance Code. The code defends the rights of workers and stakeholders who disclose information of unlawful or unethical practices to the board without any form of intimidation or harassment from any quarter. Whistleblower protection policy in Nigeria discourages employees and stakeholders who notice unethical practices by the top management of the Nigerian banks. In addition, the CBN in 2009 reported that Nigeria hit a segment of ineffective corporate governance with problems in AfBank Nigeria Plc and Intercontinental Bank Plc in 2009.

Consequently, most countries have set codes of best practices to address governance and financial reporting irregularities. As a result of this, Sarbanes Oxley in the United States of America was produced. Other instances include the Vienot Report in France, Day Report in Canada, the Kings Report in South Africa among others. These guidelines aim to enhance companies' corporate governance setting (Bhagat & Bolton, 2009).

This study examines how effective governance might be attained by having an effective whistleblowing policy, which may significantly improve financial reporting quality activities. The establishment of a whistle-blowing policy in a firm might enhance the stream of the company's information to directors, who in various cases have permanent jobs in other corporations (Al-Absy, Ku-Ismail & Chandren, 2019). Furthermore, whistleblowing policy may perhaps create a multiplicity of sources of data acquisition concerning the relevant company-specific information instead of depending on to the Chief Executive officer (CEO). Moreover, the whistleblowing policy encourages firms' accountants, auditors, employees, and other stakeholders to expose any wrongdoing within an organization. Thus, the existence of whistleblowing policy could improve the monitoring role of corporate governance mechanisms (Al-absy et al., 2019, Packin & Edwards, 2016).

Audit committees (AC) are said to improve corporate financial reporting practices. However, Nigeria is among the few countries that integrated AC formation into their company's act. Section 359 (3) and (4) of CAMA 1990 highlights the roles of AC in public companies in Nigeria. The Act stipulates that one member of the AC should be familiar with accounting or financial management.

Nigeria has witnessed a sequence of business failures and related swindles that have raised uncertainties about the integrity of corporate governance. One explicit area of anxiety is the monitoring function of AC in enhancing the effectiveness of whistleblowing policies. Consequently, the failure of auditors to uncover these

scandals and blow the whistle to the expected regulators indicates the audit committee's impairment.

1.1 Objectives of The Study

In light of the above, this study examines the effect of AC attributes on effective whistleblowing policy in Nigeria.

Specifically, the study aims to;

- i. examine the influence of AC independence on whistleblowing policy;
- ii. examine the influence of AC financial expertise on whistleblowing policy;
- iii. examine the influence of AC size on whistleblowing policy; and
- iv. examine the influence of AC meetings on whistleblowing policy

2. LITERATURE REVIEW

It has been debated that ACs with accounting proficiency exhibit better solicit of auditing and risk. They are also knowledgeable about whistleblowing processes meant to detect and address corrupt practices. They encourage expenditure on training through organizing seminar programs to create awareness on the whistleblowing policy, especially on compliance with the professional codes of conduct. Kehinde and Osifo (2017) studied effective whistle-blowing mechanisms and AC in Nigeria. The study documented a positive and significant improvement in whistleblowing practices in the Nigerian banking sector. Taiwo (2015) studies the effect of whistle-blowing practice on performance in Nigeria, with the result revealing a positive significance in whistleblowing practice. Al-Haidar (2017) opines that investors who perform vital role in the effectiveness of an organization need to recognize the worthiness that the organization brings to the economy and society.

Hence, the interests of investors should not be jeopardized by inappropriate management of whistleblowing practices. Thus, the AC affiliates with financial accounting experience have the skill to recognize risk supervision activities such as strategic and corporate risks. It is anticipated that companies that have AC members with accounting expertise participate more aggressively in the risk supervision process. This will enable the AC to checkmate fraudulent acts.

Recent empirical evidence such as Lee and Fargher (2017) considered the role of the AC in checking whistleblowing. They studied how AC meetings, AC independence, and AC expertise whistleblowing policy. They take a sample of interior and exterior and interior whistleblowing instruments. They discover that a superior AC decreases the likelihood that wrongdoing is reported externally compared to internally, and

decreases the likelihood that a whistle-blower experiences revenge. They also documented that a higher-quality AC is related to the application of a robust internal whistle-blowing system, which in return lessens the chance of external relative to internal reporting. Kehinde and Osifo (2017) examined AC and active whistle- whistle-blowing instruments in Nigeria. They adopted multivariate regression as a technique for analysis. The findings reveal that AC attributes enhance the whistleblowing mechanism in Nigeria. The non-inclusion of ten years period, AC size, and big 4 auditors in the above studies most especially in Nigeria, gives a gap that is required to be filled. Taking these for granted, it gives the need to conduct a study and fill the existing gaps in the literature.

Audit committee independence (AC) comprises independent directors with experience, reputation, and capacity to make decisions in the interest of an organization (Siagian & Tresnaningsih, 2011). Oussii and Klibi (2020) viewed AC financial expertise as members of the AC who have knowledge of accounting or finance and read and understand as well as interpret accounting information reported in the financial statements. The AC committee size requires an equal number of shareholders and directors, which include the maximum number of three shareholders and three directors to run the AC (Bala & Kumai, 2015). Frequent meetings in the audit are expected to increase the effectiveness of monitoring (Kamel, Ishak, Aziah, & Manaf, 2014).

Recently, Maragno and Borba (2021) documented that a higher-quality AC is positively linked with a robust internal whistleblowing system, which in return lessens the chance of external relative to internal reporting. This confirms the findings of Read and Rama (2003) who revealed that the reception of whistle-blowing grumbles was positively linked with AC support of internal auditing. In effect, this study hypothesizes that; *H1* AC attributes have a substantial impact on whistleblowing policies of listed deposit money banks in Nigeria; and *H2* AC attributes have no substantial impact on whistleblowing policies of listed deposit money banks in Nigeria.

3. METHODOLOGY

A correlational research design is used to aid the study to measure the link between AC and an effective whistleblowing policy. The study uses ten years' period (2009-2019).

This is because the period involved a series of banking reforms including the whistle-blowing policy 2016. The population of the study is 16 listed banks for the period of 2019 out of which 14 banks were selected. Filtering criteria have been used in arriving at the sample by selecting banks that have the complete information necessary for the study. Logistic regression has been

adopted as a technique for data analysis since the dependent variable WHBL is a dummy variable (1 and 0). STATA has been a tool for data analysis. We used Big 4 auditors as the control variables since bigger auditors are assumed to have robust enthusiasms and strong ability to provide high-quality reports. Thus, to safeguard their reputation, the Big 4 auditors are more conformist and will make their clients from engaging in any unethical accounting issues (DeFond & Zhang, 2014). Moreover, the audit market has evolved into different levels with the Big 4 firms (PricewaterhouseCoopers (PWC), Deloitte, KPMG, and Ernst & Young) leading the audit marketplace and, in particular, the audit market for large clients (Asthana, Khurana, & Raman, 2019).

Therefore, a model is formulated to support the relationship thus:

$$WHBL_{it} = \beta_0 + \beta_1 ACINP_{it} + \beta_2 ACFE_{it} + \beta_3 ACSIZE_{it} + \beta_4 ACMET_{it} + BIG4_{it} + \epsilon_{it}$$

Where: WHBL= Whistle-blowing policy, ACINP = AC Autonomy, ACFE = AC Financial Know-how, ACSISZE = AC Size, ACMET= AC Meetings, BIG4 = Big 4 Auditors, B₀ = Constant, B₁-B₅ = coefficients, ε = Error term and it = indicator of panel data

Table 3 contains each variable with its respective definitions.

Table 3.1
Variable Measurements

S/N	Variables	Measurement	Source
1	Whistleblowing policy (WHBL)	Measured as 1 when a firm discloses a whistle-blowing policy and otherwise 0.	Kanojia, Sachdeva and Sharma (2020)
2	AC Independence (ACINP)	The ratio of nonexecutive directors in the AC to an aggregate number of AC.	(Emeh, Y., & Appah, 2013)
3	AC Financial Know-how (ACFE)	The ratio of AC members with financial know-how (financial knowledge) in the AC to an aggregate number of ACS.	Bala and Gugong (2015)
4	AC Size (ACSIZE)	The aggregate number of AC members	Lee and Fargher (2017)
5	AC Meetings (ACMET)	Aggregate Number of AC meetings during the year.	Lee and Fargher (2017)
6	Big Four Auditors (BIG4)	Measured as 1 when a firm is audited by big 4 auditors and 0 when otherwise.	Bala, Amran and Sharri (2019)

4. RESULTS

One of the important aspects of the research is descriptive statistics which outlines the min, max, mean, and standard deviation of the variables of the study. Table 4.1 discloses the descriptive data for the sample firms. An analysis of the outcome shows that WHBL revealed an average value of 0.53, signifying that an

average of 53% of sample banks reveal their degree of commitment in whistleblowing undertakings.

Table 4.1
Descriptive Statistics of the Variables

VARIABLE	OBS.	MEAN	STD. DEV.	MIN.	MAX.
WHB	154	0.533	0.501	0.000	1.000
ACTING	154	0.688	0.253	0.180	1.000
ACE	154	0.608	0.308	0.250	1.000
ACSIZE	154	5.32	0.965	4.000	8.000
ACME	154	3.737	0.941	0.500	6.000
BIG4	154	0.733	0.444	0.000	1.000

The AC independence reveals the smallest and largest values of 0.18 and 1, respectively. This shows that the lowest percentage of non-executive directors in the AC is 18% and the highest proportion is 100%. AC financial expertise reveals the lowest value of 0.2 and an extreme value of 1. The mean is 0.608, which signifies that the average percentage of members with financial expertise in the AC is about 61% percent.

AC size has an average of five members with the smallest and the highest of four and eight members, respectively. Table 4.1 also revealed that AC had meetings at least four times in a year with a minimum and maximum of four meetings and six meetings, respectively.

4.1 Correlation

Table 4.2 presents the correlation matrix. It can be observed from Table 4.2 that there is a positive significant relationship between AC independence, AC financial expertise, and whistle-blowing. There is also a positive significant association between AC meetings, the control variable Big4 auditors, and whistleblowing. It is shown that the relationship between the independent variables themselves is weak. This is an indication that there is no multi collinearity in the model of the study.

Table 4.2
Descriptive Statistics of the Variables

	WHB	ACINP	ACFE	ASSIZE	ACMET	BIG4
WHB	1					
ACINP	0.176***	1				
ACFE	0.158***	0.076	1			
ACSIZE	-0.147***	0.047	-0.114**	1		
ACMET	0.101*	-0.157***	-0.106*	0.415***	1	
BIG4	0.161***	0.045	-0.047	-0.066	-0.041	1

4.2 Results and Discussion

The AC autonomy is positively and significantly linked to the whistleblowing policy with a p-value of 0.028 and a beta coefficient of 1.527. This suggests that firms that have AC composed of independent directors are more likely to have effective whistleblowing policies. This implies that AC autonomy may stand as a means of dipping financial irregularities by employers. Therefore, the study's null hypothesis is falsified. This is consistent with the finding of Kehinde and Osifo (2017) who showed that AC autonomy is negatively linked to effective whistleblowing mechanisms.

Table 4.3
Logistic Regression Results

WHB	Coef.	Robust Std. Err.	Z-Values	P-Value
ACINP	1.527	0.693	2.200**	0.028
ACFE	1.216	0.595	2.050**	0.041
ACSIZE	-0.557	0.207	-2.690***	0.000
ACMET	0.623	0.216	2.890***	0.004
BIG4	0.815	0.396	2.060**	0.039
CONS	-1.601	1.32	-1.21	0.225
PSEUDO R2	0.101			
WALD CHI2	19.74			
PROB.	0.001			
LINK TEST (HATSQ)	0.869			
GOF TEST GROUP (10)	12.45			
PROB. CHI2	0.132			
% OF CORRECTION PREDICTION	64			

In addition, there is also a positive significant connection between AC financial know-how and the effective whistleblowing policy. This can be inferred from the coefficient 1.216 and p-value of 0.041, demonstrating a 5% level of significance. This implies that financial know-how as one of the surrogates of AC is more likely to improve an effective whistleblowing policy. This is because affiliates of the AC have enough financial mastery as well as effective monitoring of the industry's activities. Consequently, the study null hypothesis is rejected.

This corroborates the findings of Lee and Fargher (2017) who documented a higher-quality AC being associated with the application of a stronger internal whistleblowing policy. The model also exhibits that AC size has an adverse significant impact on the effective whistleblowing policy. This suggests that a large AC size reduces the likelihood of whistleblowing policy. In view of that, the study null hypothesis is rejected.

This is compatible with the work of Bala and Benjamin (2015) that documented a lesser AC may act more effectively than a larger AC. This is because it is highly probable for the lesser AC to make considerable

decisions without waste of time. Furthermore, a larger size might be so difficult to cope with since several AC memberships might result in a sluggish decision-making process. Table 4.3 also discloses that AC meetings have a positive significant influence on the effective whistleblowing policy of listed deposit money banks in Nigeria at the 1% significance level. This means that a more frequent audit during a committee meeting is positively related to an effective whistleblowing policy, which implies that the frequency of AC meetings is more likely to enhance whistleblowing policy. Thus, the study's null hypothesis is rejected. This corroborates the findings of Lee and Fargher (2017) who documented that high-quality AC aids in ensuring that whistleblowing policies are received and resolved through internal channels. Moreover, Kehinde and Osifo (2017) argue that AC attributes enhance the whistleblowing mechanism in Nigeria.

5. CONCLUSION

The major role of AC is to supervise the whistleblowing policy between incorporated entities, which has a direct influence on organizational goals and shareholder wealth reflected in financial reporting. This study examines whether the attributes of AC (independence of AC members, the number of members with financial expertise, AC size, and AC meetings) are related to the whistleblowing policy in Nigerian banks. The findings offer some signals to support the main hypothesis of the study.

The results from the logistic regression reveal that firms that have AC composed of independent directors, have more financial experts, and meet frequently are more likely to have an effective whistle-blowing policy. Larger AC is associated with a weak whistleblowing policy. The study will be relevant to policymakers and regulators by formulating effective whistleblowing rules and regulations.

6. RECOMMENDATIONS

Consistent with the findings and conclusions of the study, the following recommendations are made: Regulatory organizations such as Financial Reporting Council of Nigeria (FRCN), Corporate Affairs Commission (CAC), and Security and Exchange Commission (SEC) should ensure strict adherence to the code of best practice by listed deposit money banks in Nigeria so that the various stakeholders' interests would be protected fully. Whistle blowers and individual stakeholders of listed deposit money banks in Nigeria should make sure that there is maximum compliance with the provision of equal representation (three directors and three shareholders) as suggested by

Companies and Allied Matters Act CAMA (2004), as it is observed that at a particular period of time some firms have been studied have only four members in the AC. SEC and other regulatory organisations should come up with a penalty or a fine for any firm found wanted for not adhering to these rules and regulations strictly. There is a need for regulators to ensure the full implementation of the law that will protect the whistleblowers against any form of victimization and regulators to emphasize the participation of whistle blowing as they use their resources at their disposal to closely monitor management which will in turn align shareholders and management interests, thereby mitigating the agency problems.

7. LIMITATION OF THE STUDY

Like any other research, our study is also associated with some limitations. These limitations are as follows: The study is only limited to the domain of the listed Deposit Money Banks in Nigeria. As such, our findings and recommendations are only applicable to listed Deposit Money Banks in Nigeria.

8. SCOPE FOR FURTHER RESEARCH

This study examines the influence of AC attributes on the whistle blowing policy of listed Deposit Money banks in Nigeria for the period of ten years 2009 - 2019.

Further research may be needed to be conducted on the AC attributes in other sectors other than financial institutions like manufacturing.

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