AUDIT COMMITTEE CHAIR CHARACTERISTICS AND EARNINGS QUALITY

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ABSTRACT

This study investigated the relationship between audit committee chair characteristics and earnings quality of insurance firms listed in the Nigerian Exchange Group. Specifically, the paper sought to ascertain whether firms whose audit committee (AC) chairs are shareholders' representatives are associated with accounting conservatism compared to firms whose AC chairs are directors' representatives. The study also investigated whether the accounting expertise of the AC chair is associated with accounting conservatism. Data from annual reports of 25 sampled insurance firms (over the period 2012 to 2020).were analysed using the fixed effect model of panel regressions. Controlling for firm size, growth opportunities, profitability and leverage, the study found evidence that firms whose AC chairs were shareholders' representatives were more associated with accounting conservatism than firms whose AC chairs were directors' representatives. Also, AC chair with accounting expertise were more associated with accounting conservatism than firms whose AC chairs were not accounting experts. The study contributes to literature by documenting the channels through which audit committee enhances earnings quality. For policy makers, regulators and firms, this study's findings will be useful in designing policies and regulations concerning audit committees, and guide shareholders in the annual election of members of audit committee and in particular, in the selection of the chair of the committee. The study suffers the limitation of concentrating only on the insurance industry and employing only accounting conservatism to measure earnings quality.

Keywords: Audit committee chair, accounting expertise, accounting conservatism, shareholders' representatives, directors' representatives.

1. INTRODUCTION

Each public business must form an audit committee (AC) to oversee its financial reporting process, according to Section 404 (2) of the Companies and Allied Matters Act, 2020, which replaced the abolished Section 359 of the Companies and Allied Matters Act, 1990. The highly publicized accounting scandals of the last decade, such as Enron, Fannie Mae, and Lehman Brothers, and their far-reaching impact on financial markets have ignited research into the AC chair characteristics as determinants of effectiveness of the audit committee. Some of the studies include Abbott et al. (2004), Bala et al. (2015), Bedard, et al. (2004), Bilal et al. (2018), Chukwu and Nwabochi (2019), Cohen et al. (2004), Dhaliwal et al. (2010), Ebirien

(2014); Elijah and Ayemere (2015), Hamdan (2020), Krishnan (2005), Krishnan et al. (2011), Krishnan and Visvanathan (2008, 2009), and, Umobong and Ibanichuka (2017). However, there is scanty literature on the effect of audit AC chair characteristics on earnings quality. The available few studies concentrated on non-financial firms. The dearth of studies is greatest when it comes to the insurance firms. This is despite the critical role insurance firms play in the economic development of nations. Ebirien and Nwanyanwu (2017) observed that the insurance industry contributes to the economic development of nations through risk transfer and indemnification for companies and individuals. The objective of this study therefore is to fill the observed gaps. Specifically, the study seeks to (1) explore the effect of AC chair representation on accounting conservatism of Nigerian listed insurance firms, and (2) investigate the effect of AC chair accounting expertise on accounting conservatism of Nigerian listed insurance firms. AC in Nigeria, unlike US and Europe, is composed of representatives of shareholders and directors, elected yearly at the annual general meetings. Though CAMA (2020) is silent on the attributes of the chairman of the AC, a review of the annual reports of firms listed on the Nigerian Stock Exchange reveals that the chairmen were either shareholders' representative or directors' representatives, and some were experts in the field of accounting.

The study chose accounting conservatism because prior studies such as Ball and Shivakumar (2005) and Francis et al. (2004) have shown it to be a good indicator of earnings quality. There is overwhelming evidence that accounting conservatism facilitates effective monitoring of managers as part of corporate governance mechanisms (Ball & Shivakumar, 2005; Watts, 2003), protects minority shareholders by reducing inefficient capital allocation, curbs managerial empire building (Bushman & Piotroski, 2006), protects creditors by reducing information asymmetry (Lafond & Watts, 2008), enhances firm value through lower cost of equity (Francis *et al.*, 2004), and timely termination of unprofitable projects thereby cutting economic losses. The study chose expertise because existing evidence suggests that expertise is a key determinant of AC effectiveness (Cohen *et al.*, 2014) and auditors price accounting expertise (Krishnan & Visvanathan, 2009). Also, investors react favourably to the appointment of persons with accounting expertise as AC members (DeFond et al., 2005).

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Conceptual Review

Audit Committee

Section 404(3) of Companies and Allied Matters Act, (2020) mandates every publicly listed firm to establish an AC with the primary functions of overseeing the financial reporting process and make recommendations to the board in regard to the appointment, removal and remuneration of the external auditors of the company. AC is also mandated to authorize the internal auditors to carry out investigations into any activities of interest or concern to the committee.

Audit Committee Chair

AC chair plays a crucial role in ensuring that the AC effectively carries out its duties. AC chair is tasked with responsibility of providing independent effective leadership to the AC. Khemakhem and Fontaine (2019) conducted in-depth interviews with 16 AC members in Canada and found that the role of the chair was different from that of the other AC members and it involves interactions with several individuals in the organization, such as AC members, auditors, and management. AC chair is the member with the greatest responsibility relative to other members (Tanyi & Smith, 2015). Free et al. (2021) undertook detailed interviews with two dozen public-firms AC chairs and found that AC chairs influenced the information flow and the structure and content of AC meetings. This is achieved by AC chair taking steps to (1) ensure that the responsibilities and duties of the AC are well understood by the members, (2) the AC meets as frequently as necessary, (3) establish the agenda for each meeting, (4) ensure timely availability of pre-meeting information to the members, (5) preside over all meetings and ensure there is sufficient time to fully discuss agenda items, (6) encourage members to ask questions and express viewpoints, (7) ensure that the AC meets separately in closed sessions with internal audit personnel, (8) ensure the availability of resources to the internal audit function, (9) ensure that the AC meets separately in closed sessions with external auditors, (10) follow up the AC recommendations, (11) facilitate effective communication between AC members and senior management both inside and outside the firm, (12) meet one-on-one with key heads of internal audit, external auditor, and chief finance officer for privileged information, and (13) leads the AC in mediation over accounting disputes between the CFO and external auditor. AC members' tendency to raise tough, in-depth, probing questions at meetings with various corporate governance actors such as chief executive officer, chief finance officer, external auditors, internal auditors, is a perceptive indicator of AC effectiveness (Gendron & Bédard, 2006; Gendron et al., 2004).

AC Chair Representation

Section 404(1) of CAMA (2020) requires the AC to be composed of three members representing the shareholders and two members representing the directors. Members elect a member as the chairman of the committee. CAMA (2020) is silent on who should occupy the chair of the AC. This study reviewed annual reports of firms listed on the Nigerian Stock Exchange and noted that the chair of AC was either from shareholders' representatives or directors' representatives.

Audit Committee Chair Financial Expertise

Collins COBUID Advanced Learner's Dictionary defined expertise as a special skill or knowledge that is acquired by training, study, or practice. Financial expertise therefore refers to expertise in financial, accounting, auditing and related matters. There are two competing views on the definition of financial expertise (Dhaliwal et al., 2010; Krishnan & Visvanathan, 2008). The narrow definition only includes those who have experience, skill and professional accounting certification in preparing or auditing financial statements (accounting experts). The broad definition includes work experience as an investment banker, financial analyst, or any other financial management role; and supervisory expertise as chief executive officer. A review of AC reports in the annual reports by this study showed that the chairperson was either a member with accounting expertise or non-accounting expertise. Over the years, regulators and academic (for example: Blue Ribbon Committee, 1999; Cohen et al,. 2004; DeZoort, 1997; DeZoort et al., 2002; Kalbers & Fogarty, 1993; Public Oversight Board, 1993; and Sarbanes-Oxley Act, 2002) have emphasized that financial expertise is critical to the success of the AC.

Earnings Quality

Earnings quality is a multidimensional construct that does not have universally agreed definition and measurement (Revsine et al., 2002; Penman & Zhang, 2002; Siegel, 1982). In their review of over three hundred empirical studies on the characteristics of earnings quality, Dechow et al. (2010, p.344) relied on SFAC No. 1 to define earnings quality by stating that "higher quality earnings provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker''. In examining the relationship between earnings quality and cost of equity, Francis et al. (2004) identify seven attributes of earnings quality, which are accruals quality, persistence, predictability, smoothness, value relevance, timeliness, and conservatism. This study selects accounting conservatism as the measure of earnings quality.

Accounting Conservatism

Basu (1997, p.7) defines accounting conservatism as the "accountants' tendency to require a higher degree of verification to recognize good news as gains than to recognize bad news as losses." Conservatism is evident in popular expression which urges accountants to anticipate no profits but anticipate all losses (Bliss, 1924). If an accountant anticipates profits, it means that the accountant would record profits before there is a legal claim to the associated future cash flows and before the revenues are verifiable (Watts, 2003). Accounting conservatism dictates that managers should be less optimistic in selecting estimates of earnings or assets to be received or paid in the future. This reflects the expectation of Statement of Financial Accounting Concepts No. 2 (FASB, 1980). Consequently, economic loss is recognized in earnings much timelier than profit (Ball & Shivakumar, 2005; Ball et al., 2003; Basu, 1997; Beaver & Ryan, 2005; Givoly & Hayn, 2000; Holthausen & Watts, 2001; Watts, 2003).

The extant literature distinguishes between unconditional conservatism and conditional conservatism (Ball & Shivakumar, 2005; Beaver & Ryan, 2005; Chandra et al., 2004; Pope & Walker, 2001; Richardson & Tinaikar, 2004; Ryan & Zarowin, 2003). Unconditional conservatism arises from policies that reduce earnings free of current economic news or from the application of generally accepted accounting principles. Prompt expensing of the costs of most internally developed intangibles, accelerated depreciation of property, plant, and equipment, and historical cost accounting for positive net present value projects are examples of unconditional conservatism. On the other hand, conditional conservatism implies that bad news is recognized asymmetrically compared to good news: which means that, book values are written down under unfavourable circumstances but not written up under favourable circumstances. Examples of conditional conservatism include, the market accounting rule for inventory, impairment accounting for long-lived tangible and intangible assets, and the asymmetric recognition of contingent losses and contingent gains.

Accounting conservatism has influenced accounting practice for at least five hundred years (Basu, 1997) and it has been rated as the most influential principle of valuation in accounting (Sterling (1970, p. 256). The key objective of conservative accounting practice is to mitigate incidence of overstatement of assets and income. Watts (2003) argues that conservatism survives despite strong criticism against it possibly because of overwhelming evidence of its benefits as could be gleaned from a large body of studies. These benefits include (i) helping to resolve agency conflicts arising from debt-holders' asymmetric payoff (Ball, 2001; Watts, 2003); (ii) assisting in mitigating the adverse consequences of information asymmetry by providing investors better tools to monitor and limit managers' incentives and ability to overstate financial performance (Ahmed & Duellman, 2007; Ball & Shivakumar, 2005; LaFond & Roychowdhury, 2008; LaFond & Watts, 2008; Watts, 2003); (iii) aiding firms to avoid over estimation of firms value by reducing the likelihood of late termination of unprofitable projects, and therefore minimizing bankruptcy risks in firms (Biddle et al., 2020; Srivastava et al., 2015); (iv) reducing risk perception (Barton & Waymire, 2004); (v) reducing agency conflicts and improving managerial investment decisions (Bushman & Piotroski, 2006; Bushman et al., 2011; Francis & Martin, 2010; Holthausen & Watts 2001; Watts 2003; Ball & Shivakumar 2005); (vi) enhancing the efficiency of debt contracts (Ahmed et al., 2002; Wittenberg-Moerman, 2008; Zhang 2008), (vii) better debt ratings, which are generally associated with lower costs of debt (Ahmed *et al.* 2002); (viii) reducing litigation costs (Watts 2003); (ix) helping firms obtain lower costs of equity (García Lara, García Osma & Penalva, 2011; Li, 2015); and (x) enhancing firms' access to trade credit (Zhang, 2020).

2.2. Theoretical Review

The study is anchored on *agency theory* and *upper echelon theory*. Agency theory explains the behaviour of parties in an agency relationship. Jensen and Meckling (1976, p. 308) states that "agency relationship is a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent''. In agency relationship, there is separation of ownership from control. This creates information asymmetry between the managers and owners with the managers being at advantage. Agency theory contends that there is a divergence of interest between managers and owners. It further argues that managers take advantage of the information asymmetry to act opportunistically to the detriment of owners as can be seen in the manipulating of the financial reporting process such as choice of accounting policies to produce misleading financial reports so as to conceal rent extraction. Consequently, it advocates monitoring of managers and one very important monitoring mechanism is the AC. AC is charged with the responsibility of oversight of the financial reporting process. AC that ensures conservative reporting would be fulfilling its mandate as it has been shown that accounting conservatism serves to constrain managerial opportunism thereby alleviating agency problems (Ahmed & Duellman, 2007; Affes & Sardouk, 2016). LaFond and

Roychowdhury (2008) documented greater conservatism among firms with more agency problems.

The second theory that guided this study is the Upper Echelon Theory (UET). This is applicable to the effect of AC chair on conservatism. UET posits that organizational outcomes - both strategies and effectiveness - are reflections of the values and cognitive bases of powerful actors in the organization (Hambrick & Mason (1984). Put differently, UET states that organizational outcomes can be partially predicted from managerial characteristics. The powerful actors are upper-level executives. UET places emphasis on observable managerial characteristics such as age, gender, tenure, expertise. Though the focus of UET is on the entire top executives, this study applies the underlying assumptions to explain the effect of AC chair on conservatism since AC chair has responsibility for the overall leadership of the AC. AC is an interaction activity (Abernathy et al., 2014; Beattie er al., 2014; Turley & Zaman, 2007; Khemakhem & Fontaine, 2019). Research has found that the role played by the AC chair significantly reflects that of a person who is in charge of steering a group of people (Beattie *et al.*, 2014; Beasley et al., Neal, 2009; Turley & Zaman, 2007).

2.3. Empirical Review

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Audit Committee Chair Representation and Earnings Quality

Members of AC in Nigeria usually select the chairman of the committees from amongst themselves. The chairman could be a representative of either shareholders or directors. Drawing from alignment hypothesis, it has been suggested that AC member with company shareholdings would be more motivated to actively monitor managers than AC member without company shareholdings (Jensen, 1989; Jensen & Meckling, 1976; Shivdasani, 1993). Jensen (1989) reported that outside directors with a high proportion of ownership pursue higher quality monitoring. Ahmed and Duellman (2007), Beasley (1996), and Shivdasani (1993) provide evidence of a positive relationship between directors' share ownership and financial reporting quality. But Li et al (2012) reported a negative relationship between AC directors' shareholding and intellectual capital disclosure.

Empirical research of Carcello and Neal (2003), Mangena and Pike (2005), and Yang and Krishnan (2005) reported that the shareholding of AC members undermined the monitoring motivation of its members resulting in low quality of financial reporting. Sharma and Kuang (2014) found a positive association between aggressive earnings management and greater share ownership by non-independent AC members but a negative association with greater share ownership by independent committee members, thereby highlighting the importance of AC members' independence. In a study on AC shareholding and accounting quality, Dhaliwal et al. (2010) showed that both high, and low, stock ownership in the company by AC accounting experts were positively associated with accruals quality.

Audit Committee Chair Financial Expertise and Earnings Quality

Ghafran and Yasmin (2018) assessed the impact of the AC chair financial, experiential and monitoring expertise on audit report lag and found that the experiential and monitoring expertise of AC chairs have a significant negative association with audit report lag period, implying an improvement in financial reporting timeliness. For firms with existing and likely internal control material weaknesses, likelihood of adverse internal control audit opinions increases with AC accounting expertise, suggesting that audit quality increases with AC accounting expertise (Lisic et al., 2019). Accounting conservatism generally increases when more AC members are accounting experts (Sultana & Mitchell Van der Zahn, 2013; Sultana, 2015) and when these members with accounting expertise are independent (Sultana & Mitchell Van der Zahn, 2013; Sultana, 2015). Accounting financial expertise is the primary type of expertise that influence earnings conservatism, rather than non-accounting financial expertise (Bilal et al., 2018; Sultana & Mitchell Van der Zahn, 2013). The positive relationship between AC accounting expertise and accounting quality supported by many studies (Bilal et al., 2018; Krishnan & Visvanathan, 2008) also exists when AC members have low levels of multiple directorships, and a low tenure in their corporate entities (Dhaliwal et al., 2010). AC with accounting expertise investigate accounting issues more deeply when accounting choices are more aggressive compared to members with less accounting experience. (Pomeroy, 2010) and reduce the restatement dark periods of clients that need to restate their financial position (Schmidt & Wilkins, 2013).

CAMA (2020) requires AC to keep under review the effectiveness of the company's system of accounting and internal control. A key component of internal control system is the internal audit function. Incidentally, CAMA (2020) mandates the AC to authorize the internal auditors to carry out investigations into any activities of interest or concern to the committee. By interacting with the head of internal audit function on one-on–one basis, AC chair can shape the culture of, clarify the role of, and provide proper support to the internal audit function. AC chairs with greater accounting expertise are more likely to understand and scrutinize financial reporting and auditing issues. AC chair with accounting expertise is also associated with a reduction in audit delay. The reduction is more obvious when the AC chair is a shareholder in the company (Baatwah et al., 2019). AC chair financial expertise is also associated with the adoption of risk-based internal auditing practices (Wan-Hussin et al., 2021), and negatively associated with audit report lag (Al-Qublani et al., 2020), suggesting that such expertise enhances AC monitoring effectiveness and improves timeliness in financial reporting. However, Al-Absy (2019) failed to find any association between the accounting financial expertise of the AC chair and earnings management practices in Malaysia.

2.4. Hypotheses Development

The central argument of alignment hypothesis is that a shareholder would be more vigilant in curbing managers' opportunistic behavior than directors since their wealth is at stake. This is consistent with the warning of Adam Smith (1776) that managers would not exercise equal diligence as the owners. It therefore follows that AC chair representing shareholders would be better monitors than AC chair representing directors. External auditor is likely to see AC chair representing shareholders as being more independent that AC chair representing directors since the former has no responsibility for the preparation of financial statements. Information flow is essential to the effectiveness of AC. AC chair representing shareholders is more likely to command more authority and obtain more credible information than AC chair representing directors. For instance, AC chair representing directors cannot muster enough courage to demand vital information from the Chairman of the Board or CEO or powerful CFO because of potentials for significant conflict of interest. Carcello, et al. (2011) and Shivdasani and Yermack (1999) have shown that CEO influenced appointment of directors and such directors would be loyal to the CEO. AC chair representing shareholders would possess enhanced authority which will enable the chair to gain the respect of managers in order to influence financial reporting outcomes. AC chair as a shareholder representative is more likely to be willing to investigate potential problems because he/she would be less deferential to management. He/she will have both the ability and determination to ask the right questions.

Based on the forgoing discussions, the study proposed the following hypotheses:

Ho_1: Firms whose AC chairs are shareholders representatives are more associated with accounting conservatism compared with firms whose AC chairs are directors' representatives.

Ho_2: Firms whose AC chairs are accounting experts are more associated with accounting conservatism compared with firms whose AC chairs are non-accounting experts.

3. METHODOLOGY

The population of this study is all insurance firms listed on the Nigerian Stock Exchange between 2012 and 2020. The Fact Books of the Nigeria Stock Exchange for each of the years 2012 through 2020 show that a total of 28 insurance firms were listed on the Exchange during the sample period. The study chose all the insurance firms but excluded firms and firm-years without all relevant data thereby producing a sample size of 25 firms and 211 firm-year observations. It retrieved data from the annual reports of the sampled firms.

Empirical Model

The study modeled earnings quality as a function of AC chair characteristics and control variables. In econometric term, the model is specified as follows:

EQ = f(REP, EXPT, LEV, ROA, GRW, FSZ).

For purposes of estimation, the model is rewritten thus:

$$CONCAC_{i,t} = \beta_o + \beta_1 REP_{i,t} + \beta_2 EXPT_{i,t} + \beta_3 FSZ_{i,t} + \beta_4 GRW_{i,t} + \beta_5 ROA_{i,t} + \beta_6 LEV_{i,t} + \varepsilon_{i,t}$$

The variables used in the models are defined and measured as follows:

Conservatism (CONCAC) = $-1*[(NI_t\text{-}DEP_t\text{-}CFO_t) + (N1_{t-1} – DEP_{t-1} – CFO_{t-1}) + (NI_{t-2} – DEP_{t-2} – CFO_{t-2})/3]/TA_t$ (Ahmed *et al.*, 2002).

Representation (REP) = Dummy variable coded 1 if AC chair is shareholders' representative, 0 if AC chair is directors' representative.

Financial expertise (EXPT) = Dummy variable coded 1 if AC chair is member of either ICAN or ANAN, and 0 otherwise as suggested by the Financial Reporting Council Registration number of AC chair in the AC Reports.

Firm size (FSZ) = natural log of total assets.

Growth (GRW) = Gross premium at time t less gross premium at time t_{-1} all divided by gross premium at t_{-1}.

Return on assets (ROA) = Profit before tax divided by total assets.

Leverage (LEV) = Total liabilities divided by total assets.

ε = Error term

β_0 = Intercept

β_{01}- β_6 = Regression parameters

The a priori expectation is that β_1 and β_2 will be positive and significant.

The study employed four control variables: firm size, growth opportunities, profitability, and leverage. Large firms have enough room to hide losses and consequently may not report losses in a timely manner. Large firms relative to small firms are likely to have lower information asymmetry because of better quality of internal control and large analyst following and high political cost (Watts & Zimmerman, 1986). High information asymmetry is associated with increased demand for conservatism (LaFond & Watts, 2008). Consequently, large firms are expected to exhibit negative association with conservation. Givoly et al. (2007), LaFond and Watts (2008), and Watts and Zuo (2011) provide empirical evidence of a negative association between firm size and conservatism. Firms with higher growth opportunities experience relatively higher contracting costs because of larger information asymmetry. Managers of such firms tend to have greater discretionary power and are more likely to manage earnings through accruals than managers of firms with low growth opportunities. This invariably leads to agency costs that are higher in high-growth firms (Kwon & Yin, 2006; Smith & Watts, 1992). Ahmed et al. (2002) confirm a positive association between growth opportunity and conservatism.

Profitability (ROA) is a measure of financial performance. It indicates the extent of managerial effectiveness and also as an indicator of the financial health of firms. Managers have the proclivity to withhold bad news (Kothari et al. 2009) because timely recognition of losses can result in reduction of their compensation which is usually tied to financial performance. Firms that report poor performance tend to experience higher adverse selection costs in the stock market (Verrecchia & Weber, 2007). Chen et al. (2013) document a negative relation between profitability and conservatism. Firms with high leverage ratio compared to their counterparts with low leverage ratio face higher financial risks including bankruptcy risks. Consequently firms with high leverage ratio usually tend to manage earnings (DeAngelo, 1994; DeFond & Jiambalvo, 1994). Firms with high leverage are highly vulnerable to greater conflict between bondholders and shareholders (Ahmed et al. (2002). For this reason, creditors demand conservative accounting (Beatty et al., 2008).

4. RESULTS AND DISCUSSION

Univariate Analysis

The study carried out univariate, bivariate and multivariate analyses. The objective of univariate analysis is to show the pattern and trend of the data so as to permit informed inferences. This is achieved by focusing of descriptive statistics. Table 1 presents the descriptive statistics of the study.

Table 1 Descriptive Statistics

Variable	Obs	Mean	Median	Std. Dev.	Min	Max
CONCAC	211	0.011096	0.005422	0.07554	-0.20136	0.42036
REP	211	0.791469	1	0.40722	0	1
EXPT	211	0.445497	0	0.49820	0	1
FSZ	211	16.61916	16.47656	0.95432	12.9146	19.308
ROA	211	0.025861	0.039519	0.13858	-0.70119	0.9129
GRW	211	0.126319	0.109505	0.35596	-0.64594	3.6365
LEV	211	0.629081	0.556786	0.68430	-4.42052	5.0609

Source: Researchers' Computation, 2023

Table 1 shows that the analysis was based on 211 firm-year observations. The mean value of CONCAC is 0.011096 while the median is 0.005422. The value of CONCAC ranges from -0.20136 and 0.42036. REP recorded a mean of 0.791469. The median is 1 implying that fifty percent or more firm-year observations have shareholders' representatives as AC chairs. Table 4 also shows that on the average 44.55% of AC chair have accounting expertise. The median is 1 suggesting that fifty percent or more firm-year observations have AC chair with accounting expertise. For the control variable, the average size of insurance firms (FSZ) is 16.61916 which is lower than the median of 16.477. Firm size falls in the range of 12.91462 and 19.30898 with standard deviation standing at 0.954327. There is a little dispersion amongst the firms in term of firm size measured by the natural logarithm of total assets. Return on assets (ROA) has a mean of 0.025861. Return on assets varied from -0.7011954 to 0.9129259. The negative minimum value suggests that some insurance firms did not employ their assets efficiently.

Bivariate Analysis

Bivariate analysis seeks to assess the association between a pair of variables. The study employed correlation analysis for bivariate analysis. Table 2 reports the result of correlation analysis. It shows a positive and insignificant correlation between CONCAC and REP (r = 0.021). It however shows that the correlation between CONCAC and EXPT is negative and insignificant (r =-0.0719). All the control variables exhibit a negative and significant association with CONCAC except GRW that is insignificant. The values of the correlation coefficient are relatively small suggesting that multicollineary is not a serious threat to the result of multivariate analysis. Belsley et al. (1980) suggests correlation coefficient greater than 0.8 is indicative of serious problem of multicollinearity.

Table 2: Correlation Matrix

	Concac	Rep	Expt	fsz	roa	grw	lev
concac	1.0000						
Rep	0.0211	1.0000					
expt	-0.0719	0.0845	1.0000				
fsz	-0.2222*	-0.3424*	-0.0934	1.0000			
roa	-0.5483*	0.0447	0.1236	0.1397*	1.0000		
grw	-0.0693	-0.0624	0.0282	0.2434*	0.2091*	1.0000	
lev	0.4727*	-0.0349	-0.0419	-0.1209	-0.2232*	-0.0891	1.0000

* denotes 5% level of significance

Source: Researchers' computation, 2022

Multivariate Analysis

The study estimated the empirical model to test the two formulated hypotheses. First, the study adopted multivariate panel regressions since the dataset is a combination of time-series and cross-sectional data. Using unbalanced panel dataset, the study conducted a Hausman specification test and found the p-value of chi-squared statistics as 0.001 and consequently selected the Fixed Effect Model instead of Random Effect Model consistent with the recommendation of Cameron and Trevid (2010).

Table 3: Regression Results

Concac	Coef.	Std. Err.	t	p-value
Rep	.0418244	.0150681	2.78	0.006
Expt	.0208908	.0105357	1.98	0.049
Fsz	-.0203374	.0073786	-2.76	0.006
Roa	-.1877451	.0319214	-5.88	0.000
Grw	.0217092	.0106395	2.04	0.043
Lev	.0212455	.0079459	2.67	0.008
Cons	.2954241	.1243523	2.38	0.019
Model Summary				
Number of obs			211	
Number of groups			25	
F(6,180)			8.66	
Prob > F			0.0000	
R-sq: overall			0.2906	

Source: Researchers' Computation, 2023

Table 3 reveals that the study used 211 firm-year observations in carrying out the estimation of the empirical model. It shows that the model is significant in explaining the variation in conservatism (CONCAC) amongst the firms in the sample (Prob > F = 0.000). Indeed Table 3 indicates that 29.06% of the variations in CONCAC were jointly explained by the independent variables and control variables. The explanatory power was greater between firms than within firms.

Test of Hypotheses

Ho_1: Firms whose AC chairs are shareholders representatives are associated with accounting conservatism compared with firms whose AC chairs are directors' representatives.

The result from Table 3 shows that the coefficient on REP is positive and significant (β_1= 0.0418244; p-value = 0.006). Since the coefficient on REP is positive and p-value is less than 0.05, the study supports the hypothesis. The result implies that an increase of the number of AC representing shareholders by I is associated with increase in conservatism by 0.042 units, all else held constant. This is consistent with the argument captured in the convergence of interest hypothesis of Agency Theory of Jensen and Meckling (1976). The convergence of interest hypothesis contends that managers with shareholdings in firms they manage are likely to align their interest with the owners. Ebirien (2016) found evidence in support of the convergence of interest hypothesis. The result aligns with Smith (1776) who warned that directors would not be more diligent in watching over the interest of the owners than the owners themselves. The result is also consistent with the argument for independence of auditors. The independence rule requires auditors to be free of material relationship with management. It is the responsibility of directors to prepare financial statements. Since AC chair representing shareholders is not involved in the management of the firm, he/she is likely to be more effective in scrutinizing accounting policies than AC chair representing directors.

Ho_2: Firms whose AC chairs are accounting experts are associated with accounting conservatism compared with firms whose AC chairs are non-accounting experts.

The result of test of hypothesis Ho_2 is reported in Table 3. It can be seen in Table 6 that the coefficient on EXPT is positive and significant (β_2= 0.0208908; p-value = 0.049). Since the coefficient on EXPT is positive and p-value is less than 0.05, the study supports the hypothesis. Holding all other variables constant, the result implies that an increase of the number of AC chair with accounting expertise by I is associated with increase in conservatism by 0.0208908 units. This is not surprising as AC chair with accounting expertise is well suited to understand complex accounting issues and policies and interrogate judgements of managers and auditors. This result supports the empirical evidence of Baatwah et al. (2019), Dhawail et al. (2010), Ghafran and Yasmin (2018), and Sultana and Mitchell Van der Zahn (2013) who document that accounting expertise enhances earnings quality.

The level of insurance penetration in Nigeria is still low, due partly to poor public perception of the insurance industry. This poor perception is attributable to delay in claims settlement, outright non-payment of valid claims in some cases, concerns about stability in the industry, and inadequate risk evaluation. Several initiatives have been introduced by regulators and operators in the industry to scale up professionalism in the conduct of insurance business in the country, and raise the quality of financial reporting in the industry to global levels (Anaesoronye, 2023; Nwoji, 2023; Okonta, 2023). This is why shareholders and accounting professionals who assume top positions in board committees understand that the public expects them to be diligent. While the shareholder who serves as AC chair may be motivated by the need to protect business investment, a lot is required of the accounting expect who serves as AC chair because the insurance industry in Nigeria has been in transition since 2012 to meet global financial reporting requirements. These requirements are expected to enhance the quality of reported earnings in the industry. Currently, there is the challenge of implementing IFRS 17 in the industry to ensure proper evaluation of insurance contract risk throughout the life of the contract. This transition calls for sound accounting expertise in leading the affairs of the AC. Thus, the AC chair who is an accounting expect will be able to steer the audit committee and impact accounting quality more effectively than an AC chair who is not an accounting expert.

4.3.3 Control Variables

Firm size (FSZ) and return on assets (ROA) showed a negative and statistically significant relationship with CONCAC. This could be because large firms have lower information asymmetry because of better quality of internal control, large analyst following and high political cost (Watts & Zimmerman, 1986). Return on assets (ROA) had a negative and statistically relationship with CONCAC. This is consistent with the findings of Chen et al. (2013). Growth opportunities (GRW) has a positive and statistically significant relationship with CONCAC, suggesting higher agency costs inherent in high-growth firms as determinant of conservatism (Ahmed et al.,2002; Kwon & Yin 2006). For leverage (LEV) there was a positive coefficient that is statistically significant at the 1% level. This is consistent with Ahmed et al. (2002) and Beatty et al. (2008) who documented heightened conservatism in the presence of conflicts between bondholders and shareholders due to high leverage.

5. CONCLUSION

This study investigated the relationship between AC chair characteristics and earnings quality of Nigerian listed insurance firms over the period 2012 to 2020. It focused on the AC chair representation, that is, shareholders' representatives versus directors' representatives and financial expertise. The study found evidence that firms whose AC chairs were shareholders' representatives were associated with greater accounting conservatism than firms whose AC chairs were directors' representatives. It equally found that AC chair with accounting expertise were associated with greater accounting conservatism than AC chairs with non-accounting expertise. Based on these findings the study concluded that audit committee chairs who are versed in accounting and are representatives of shareholders have more positive effect on earnings quality than AC chairs without such attributes. The study recommends that chair of AC should be held by shareholders' representatives and such AC chair should also be an accounting expert.

The study contributes to the literature by documenting the channels through which AC enhances earnings quality. It provides support to calls for more research on AC effectiveness. The findings of this study will be useful to policy makers, regulators and firms in designing policies and regulations concerning AC. The findings will guide shareholders in the annual election of members of the AC. In particular, the findings will serve as a veritable guide to the members of the AC in the selection of the chair of the committee.

One limitation of this study is that it concentrates on the insurance industry, a regulated industry in the financial services sector. There is a need therefore to replicate this study in non-regulated firms. Another limitation is the use of one measure of earnings quality. Future studies can therefore employ more proxies of earnings quality.

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