Audit Committee Attributes and Sustainability Reporting of Oil and Gas in Nigeria

Ohidoa Toluwa (PhD)
Department of Accounting, Faculty of Management Sciences, University of Benin

OJEAGA, Joseph Oseikhuemhen (PhD)
Department of Accounting, Faculty of Management Sciences, University of Benin

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Abstract:
This study investigates the effect of audit committee attributes and sustainability reporting. The study covered the range of nine (9) years period (2014 – 2022). Mainly, secondary data were pooled from annual reports of the sampled companies listed at floor of Nigeria group exchange as at 31st December 2021 financial year end. Data collected were subjected to polled panel regression analysis estimation. The outcome of statistical results, revealed that audit committee size has a negative and significant impact on sustainability reporting; audit committee independence and audit committee meeting have a negative but insignificant impact on sustainability reporting; and audit committee multiple directorship was found to have a positive and significant impact on sustainability reporting. This study, therefore recommends that audit committee size and composition should be established in line with the relevant provisions of the law; a minimum of one audit committee member should have interlocking directorship in order for companies to gain from the extended knowledge wider channel networks and broader experience that these members gain from serving on different board.

Keywords: Corporate governance, Sustainability reporting, Audit committee, Industry, and organisation
Introduction

Oil and gas based firms no doubt are faced with several risks from sustainability related litigation such as; regulatory investigations, social unrest and stakeholder activism (Chartier & Johnston, 2020). These firms are thus under pressure to address these challenges in midst of priorities and expectations. A sustainability practice has become a prominent issue in the oil and gas sector; and a key element that affects organisations’ sustainability is the strength and weakness of corporate governance system in place. The weakness could be caused by operational negligence, legal violations and failure to abide by acceptable standards of corporate behaviour that can have serious implications on an organisation’s reputation and financial stability (International Petroleum Industry Environmental Conservation Association, American Petroleum Institute, and International Association of Oil and Gas Producers, 2020). These consequences do not just affect employees and shareholders, but also stakeholders. Against this backdrop, investors increasingly request organisations to provide governance information to enable them make financial decision and plan for sustainable long-term return (IPIECA et al., 2020). In particular, investors are more interested in how board members and senior management demonstrate a forward-looking approach and long-term strategic view of their business resilience, risks, and opportunities (IPIECA et al., 2021).

In Nigeria, the Code of Corporate Governance (NCCG) emphasised that, giving attention to sustainability issues enables long-term corporate performance and makes companies become responsible corporate citizens that contribute to economic development (Federal Reporting Council of Nigeria (FRCN, 2018). The NCCG requires the disclosure of sustainability policies and practices and it directs the board to watch over implementing sustainability policies and report on the level of conformity with the policies. One fundamental problem is that, even companies in the same industry prepare sustainability report differently in content. This implies that there are unique characteristics inherent in different companies that potentially lead to these report discrepancies, one of which is corporate governance (Chariri & Januarti, 2017). The characteristics of corporate governance especially that of audit committee, affects sustainability reporting (Chariri & Januarti, 2017). In fact, there is no corporate governance committee that is more focused on the governance of a company as much as the audit committee (Buallay & Aldhaen, 2018).

The audit committee is responsible for the oversight of managements’ compliance to sustainable reporting regulations (KPMG, 2016). As such, failure to keep abreast with these sustainable reporting practices compromises their competence. On this ground, recommendations for further research were made. Raimo, Vitolla, Marrone and Rubino (2020) suggested that studies should be conducted on the role of audit committee characteristics on environmental, social and governance (ESG) disclosure. Also, Ghafran (2013) recommended that researchers should examine the audit committee’s social responsibility role and audit committee's relevance to stake holders other than shareholders. Again, Amran, Lee, and Devi (2014) focused on the board of directors’ role on sustainability reporting (SR) quality and recommended that
investigation should be done on the role of audit committee on SR quality. Thus, this study filled these identified gaps by investigating the impact of audit committee attributes on sustainability reporting in the oil and gas industry. The remaining part of the study is: review of literature, methodology, analysis, conclusion and policy recommendation.

1. Audit Committee Size and Sustainability Reporting

Audit committee size is usually recognized as the first component of audit committee characteristics (Aimatari, Al-Swidi, & BtFadzil, 2014). It’s usually measured by the number of serving members in the audit committee of a company (Aimatari et al., 2014). Though there is no ideal size for audit committee, previous research and regulatory requirement recommends the inclusion of an audit committee of 3 to 5 members, with majority being independent. (Persons, 2009; Ghafran, 2013). Since an audit committee with larger size is likely to have the better mix of diversity, skills and expertise, they are more likely to reveal and resolve potential challenges related to corporate reporting (Raimo et al., 2020). Preparing a good sustainability report requires the collection and analysis of quantitative and qualitative information from different aspect of a company. This would need important supervision and monitoring (Raimo et al. 2020). For this to be effective, a large audit committee size with diverse skills and expertise would be fundamental. **Hypothesis one:** audit committee size has no significance effect on sustainability reporting

2. Audit Committee Independence and Sustainability Reporting

An audit committee member is independent when it has neither a financial nor personal relationship with an organisation and its top executives (Persons, 2009). Audit committee independence is represented through the ratio of non-executive members to other members in an audit committee (Abdullah et al., 2008. Kang & Kim 2011). Although the term “non-executive director” is sometimes used interchangeably with “independent director”; this usage is erroneous because not all non-executive directors are independent (Zabojnikova, 2016). Audit committee with relatively higher proportion of non-executive directors to executive directors are considered more independent compared to audit committees with relatively higher number of executive director (Mohd et al., 2009). As a result, the Sarbanes-Oxley Act (2002) mandated that the audit committee of listed companies should comprise independent directors (Almatari et al, 2014). **Hypothesis two:** audit committee independence does not influence sustainability reporting.

3. Audit Committee Frequency of Meeting and Sustainability Reporting

Frequency of meeting is a vital attribute of audit committees (Buallay & Aldhaen, 2018). It is an attribute that enables audit committee members to oversee corporate activities more frequently and effectively (Arif et al, 2020). Audit committees that hold frequent meetings are more likely to execute their oversight function effectively. Arif et al. (2020) noted that when audit committee meetings are regularly scheduled, it will enable members to monitor accounting records and internal control systems. Regular and well-organised audit committee meetings are
fundamental in appropriately examining the accounting and internal control system and updating top management about issues of major concern and action (Almatari et al., 2014). Raimo et al. (2020) noted that when audit committee holds too few meetings, it could become tedious to reveal unethical disclosure practices and accounting irregularities in the company. **Hypothesis three:** audit committee frequency meeting has no significant impact on sustainability reporting.

4. Audit Committee Multiple Directorship and Sustainability Reporting

Audit committee multiple directorship, also called interlock can be defined as the number of director positions held by audit committee members (Atu et al., 2013). Al-lawati, Hussainey and BtFadzil (2021) provided evidence that interlocked directors are very beneficial to companies due to the extended knowledge, wider channel networks and broader experience that these members gain from serving on different companies. These members are perceived as valuable by the stock markets and investors due to the reputational benefit they have (Al-lawati et al., 2021). This suggests that organisations need to appoint more of these members to audit committees due to their positive effect on financial reporting, which can encourage foreign investment and restore confidence in the market through beneficial decisions. **Hypothesis four:** audit committee multiple directorships don’t affect the level of sustainability reporting in Nigeria.

**Methodology**

This study adopted the panel research design. This research design was adopted because the data for the study cuts across several companies at different time periods. The population for this study comprised firms listed under the oil and gas sector in Nigerian Stock Exchange as at 31\textsuperscript{st} Dec. 2021. The used descriptive and inferential statistics.

**Model Specification**

The model of this study is specified as:

$$\text{SRD} = f(\text{ACSZE, ACIN, ACM, ACFE, ACMD})$$

In econometric form:

$$\text{SRD}_{it} = \beta_0 + \beta_1 \text{ACSZE}_{it} + \beta_2 \text{ACIN}_i + \beta_3 \text{ACM}_i + \beta_5 \text{ACMD}_it + \varepsilon_{it}$$

Where

- $\text{SRD} =$ Sustainability Reporting - \( \frac{\Sigma \text{Total disclosure score by company}}{\Sigma \text{Maximum disclosure score required}} \) (49)
- $\beta_0 =$ Constant; $\text{ACSZE} =$ Audit Committee Size- Total number of the audit committee (Alabi, Alo & Aina (2019)); $\text{ACIN} =$ Audit Committee Independence- Proportion of non-executive directors in the audit committee(AI-Lawati, et al. 2021); $\text{ACM} =$ Audit Committee Meeting-Number of
meeting held by the audit committee (Adegboye et al. (2019); ACMD= Audit Committee Multiple Directorship- Percentage of audit committee members in a recognized professional accounting body (Al-Lawati, et al. (2021); ε = Standard Error; i = Cross-sectional; t= Time series; 

*Apriori* expectation base on extant literature is $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

## Presentation and Analysis of Data

### Table1: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>SRD</th>
<th>ACSZE</th>
<th>ACIND</th>
<th>ACM</th>
<th>ACMD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.133</td>
<td>6.744</td>
<td>0.440</td>
<td>4.050</td>
<td>0.376</td>
</tr>
<tr>
<td>Max</td>
<td>0.308</td>
<td>20.000</td>
<td>0.600</td>
<td>7.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Min</td>
<td>0.000</td>
<td>3.000</td>
<td>0.150</td>
<td>2.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Std.</td>
<td>0.080</td>
<td>3.940</td>
<td>0.118</td>
<td>0.717</td>
<td>0.237</td>
</tr>
<tr>
<td>JB</td>
<td>9.399</td>
<td>292.648</td>
<td>43.928</td>
<td>39.216</td>
<td>1.835</td>
</tr>
<tr>
<td>Prob.</td>
<td>0.009</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.400</td>
</tr>
<tr>
<td>Obs.</td>
<td>98</td>
<td>98</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
</tbody>
</table>

Source: Researcher’s Compilation (2022)

Table 1 is the descriptive statistics for the variables are shown. As can be seen, SRD has the following data: Mean = 0.133 which suggests that the average disclosure score for SRD for the entire sampled firms based on the 49 GRI items is 0.13 STD = 0.080 which is low and it suggests that SRD for the sampled firms displays substantial clustering around the mean, Max = 0.308 and Min = 0.000. The maximum value indicates that the highest SRD score by the sampled companies stood at 0.308 while the minimum value indicates that some companies is about six (6) members. STD = 3.940 is quite moderate from the mean and it suggests that ACSZE for the sampled companies indicates significant clustering around the average, Max= 20.000 and Min = 3.000. The maximum value indicates that the highest ACSZE for the sampled companies is about twenty (20) members while the minimum value indicates that the lowest ACSZE for the sampled companies is about three (3) members. ACIND reveals the following statistics; Mean = 0.440 which suggests that the proportion of non-executive directors in the audit committee is 44% STD = 0.118 which the low and it suggest that ACIND for the sample firms exhibits substantial clustering around the mean, Max= 0.600 and Min= 0.150. The maximum value indicates that the highest ACIND for the sampled companies is about 60% while the minimum value indicates that the lowest ACIND for the sampled companies is about 15%. ACM indicates the following statistics: Mean = 4.050 which suggests that the average number of times meetings were held is four (4) times, STD = 0.717 which is low and it suggests that ACM for the sampled firms exhibits significant clustering around the average, Max = 7.000 and Min = 2.000. the maximum value indicates that the highest ACM for the sampled companies is seven (7) times while the minimum value indicates that the lowest ACM for the sampled companies is two (2) while the
minimum value indicates that the lowest ACM for the sampled companies is two (2) times. ACMD indicates the following statistics, Mean = 0.376 which suggests that the average percentage of audit committee member serving on multiple boards for the sampled companies is about 0.376, STD = 0.237 is close to the mean and it suggests that ACMD for the sampled companies reveals significant clustering around the average, Max = 1,000 and Min =0.000. The maximum value indicates that the highest number of audit committee members serving on multiple boards for companies is one (1) while the minimum value indicates no number of audit committee serving on the board of another company.

Table 2: Pearson Correlation Result

<table>
<thead>
<tr>
<th></th>
<th>SRD</th>
<th>ACSZE</th>
<th>ACIND</th>
<th>ACM</th>
<th>ACMD</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRD</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACSZE</td>
<td>0.053 (0.102)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACIND</td>
<td>0.000 (0.757)</td>
<td>-0.321*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACM</td>
<td>-0.003 (0.786)</td>
<td>-0.078 (0.761)</td>
<td>0.008 (0.292)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>ACFE</td>
<td>-0.003* (0.016)</td>
<td>-0.290* (0.000)</td>
<td>0.007* (0.000)</td>
<td>0.048* (0.002)</td>
<td>1</td>
</tr>
<tr>
<td>ACMD</td>
<td>0.004 (0.077)</td>
<td>-0.200* (0.018)</td>
<td>0.010* (0.000)</td>
<td>0.048* (0.002)</td>
<td>1</td>
</tr>
<tr>
<td>FS</td>
<td>0.078* (0.000)</td>
<td>3.162* (0.001)</td>
<td>-0.018 (0.534)</td>
<td>-0.268 (0.117)</td>
<td>0.222* (0.000)</td>
</tr>
<tr>
<td>FA</td>
<td>0.033* (0.000)</td>
<td>1.010* (0.000)</td>
<td>-0.001 (0.214)</td>
<td>0.022 (0.643)</td>
<td>-0.043* (0.005)</td>
</tr>
</tbody>
</table>

Source: Researcher’s Compilation (2022).

Table 3 is the correlation coefficients of the variables examined. However, of particular interest to the study is the correlation between SRD and audit committee attributes. As observed, SRD is positively correlated with ACSZE (r = 0.053), ACIND (r = 0.000), ACMD (r = 0.004), while inversely correlated with ACM (r = 0.003). The positive correlation suggests that an increase in the explanatory variable will lead to an increase in the explained variable while inverse relationship suggests that an increase in the explanatory variable will lead to a decrease in the explained variable.

Table 3: Pooled Regression Result

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>C7</td>
<td>-0.263*</td>
</tr>
<tr>
<td></td>
<td>(-3.587)</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
</tr>
<tr>
<td>ACSZE</td>
<td>-0.006*</td>
</tr>
<tr>
<td></td>
<td>(-2.236)</td>
</tr>
<tr>
<td></td>
<td>(0.027)</td>
</tr>
</tbody>
</table>
As observed in table 3, the R2 is 0.45 which suggests that audit committee characteristics explain about 46.8% of systematic variations in sustainability reporting with an adjusted value of 0.435. The F-stat (15.203) and p-value (0.000) show that at 5% level of significance, the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. Furthermore, the D.W statistics is 1.8, which suggests that serial correlation in the residuals is not ruled out. This is also confirmed by the lagrange multiplier (LM) test for higher order autocorrelation. Commenting on the performance of the audit committee characteristics, it is observed that ACSZE manifests a negative impact (-0.006) and is statistically significant (p=0.027) at 5% error term. ACIND seems to have a negative impact (-0.053), and is statistically not significant (p=0.499) at 5% error term. ACM exhibits a negative impact (-0.135) and is statistically significant (p=0.035) at 5% error term ACID manifests a positive impact (0.092) which is statistically significant as well (p= 0.008) at 5% error term.

Discussion of Findings
1. The results show that ACSZE has a negative impact (-0.006) which is also statistically significant (p=0.027) at 5% error term. This suggests that an increase in audit committee size leads to 0.006 unit decline in sustainability reporting and it is significant at 5% level of error term. Based on the statistically significant criterion (p=0.027<0.05), we reject the null hypothesis (H1) that audit committee size has no significant impact on sustainability reporting disclosure practices of listed oil and gas companies in the Nigerian Stock Exchange. This finding is in
tandem with Adegboye et al (2019) on the effect of audit committee characteristics on sustainability reporting who found that size exhibits inverse significant relationship with sustainability disclosures. The result lends support to the agency theory, which suggests that base on self-interest preferences, a larger audit committee size may lead to less coherence to audit committee members and hinder their supervisory role vis-à-vis sustainability reporting (G. Elias & Co., 2020).

2. ACIND has a negative impact (-0.053) which is statistically non-significant (p=0.499) at 5% error term. This suggests that increase in audit committee independence leads to 0.053 unit decline in sustainability reporting, however insignificant at 5% level of error term. Based on the statistically insignificant criterion (p= 0.499>0.05), we fail to reject the null hypothesis (H2) that audit committee independence has no significant impact on sustainability reporting discourse practices of listed oil and gas companies in the Nigerian stock Exchange. The inverse relationship is in tandem with the study of Chariri and Januarti (2017) who investigated the impact of audit committee characteristics on integrated reporting for listed firms in South Africa found that audit Committee Characteristics on integrated reporting for listed firms in South Africa found that audit committee independence has no relationship with integrated reporting which suggests an inverse relationship.

3. The result show that ACM have a negative impact (-0.000) which is statistically non-significant (p = 0.983) at 5% error term. This suggests that increase in audit committee meeting leads to approximately 0.000 unit decline in sustainability reporting, however insignificant at 5% level of error term. Based on the statistically insignificant criterion (p=0.983-0.05), Therefore, the null hypothesis (H3) that audit committee meeting has no significant impact on sustainability reporting disclosure practices of listed oil and Gas companies in the Nigerian Stock Exchange is accepted. The finding is in tandem with the study of Olayinka (2019) on the association between audit committee attributes and firm performance, who found that audit committee meeting exhibits significant inverse relationship with performance.

4. The result show that ACMD have a positive impact (0.092) which is also statistically significant (p=0.008) at 5% level of significance. This suggests that an increase in audit committee member directorship leads to 0.092 unit increase in sustainability reporting and it is significant at 5% level of error term. Based on the statistically significant criterion (p=0.008<0.05), we reject the null hypothesis 4 that audit committee member directorship has no significant impact on sustainability reporting disclosures practices of listed Oil and Gas companies in the Nigerian stock Exchange. The positive relationship between audit committee multiple directorship and sustainability disclosures are not unlikely.

Conclusion
Sustainability reporting has become a prominent issue in the oil and gas industry, a key element that affects organizations’ sustainability is weakness in corporate governance. These weaknesses caused by operational negligence, legal violations and failure, to abide by acceptable standards of corporate behaviour can have serious implications or organizations’ reputation and financial
stability. Therefore, audit committee has an important role to play on sustainable reporting. This implies that there are unique characteristics inherent in different companies that potentially lead to these report discrepancies, one of which is corporate governance.

Policy Recommendations
A minimum of one audit committee member should have interlocking directorship as this would be beneficial to companies due to the extended knowledge, wider channel networks and broader experience that these members gain from serving in different board. Again, adequate consideration should be given to factors such as skills, competence and background of members in order to enhance their oversight roles, having a positive effect on financial reporting quality.

REFERENCES


