AUDIT COMMITTEE REPORT IN CORPORATE FINANCIAL STATEMENTS: USERS’ PERCEPTION IN NIGERIA

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ABSTRACT: This study aimed at investigating users’ perception of the inclusion of audit committee report in corporate financial statements. Questionnaires were used to elicit information from respondents. The Chi-Square statistical tool was employed in the analysis and testing of the various hypotheses raised. It was discovered that the audit committee report does not significantly affect the quality of financial reporting although some users consider it in their decision making process. Hence, it is recommended that it should not be a compulsory report so as to reduce cost, waste and make the financial statement brief yet weighty and relevant.

KEYWORDS: Audit Committee, Corporate Financial statement

1.0 Introduction

The financial statement as prepared by company directors is a statutory report, conveying both qualitative and quantitative information to assist users of accounting information in making informed decisions. As a statement that serves multiplicity of users, the financial statement meets the general needs of users. For them to make quality decisions, the financial statements should be credible. For the financial statements to be credible and relevant for decision-making, Generally Accepted Accounting Principles (GAAP) must be followed in their preparation hence, the appointment of external auditors to ensure compliance. Furthermore, to improve the quality of financial statements, the audit committee is constituted. According to Pitt (2001); Ruder (2002), the incidence that led to the collapse of Enron made the public call out to audit committee members to improve the performance of their functions.

Prior to 1967, the whole idea of audit committee received very little accolades, and the expected functions of this committee were uncertain. However, the American Institute of Certified Public Accountants [AICPA] in 1967 made a recommendation that audit committee boards be established so that external auditors can communicate and interact with the audit committee whenever any question having material importance on the company’s financial statements has not been satisfactorily resolved with management. To further encourage the establishment of audit committee boards, the Security and Exchange Commission (SEC) issued in 1972, Accounting Series Release No. 123, “Standing Audit Committees Composed of Outside Directors” to give protection to investors who rely upon the financial statements for decision-making. This they do by reporting in the financial statement the oversight functions performed. The clamor for the formation of audit committees around the world shows the relevance of audit committees as a governance mechanism. According to Lindsell (1992), the audit committee is a mechanism of corporate governance to check the quality, credibility, and objectivity of financial reporting; it performs an oversight function in the financial reporting process and communicates to users through a report in the financial statement. This committee has a monitoring responsibility over management and external auditors alike. They are intermediaries or watch dogs. The financial statement users will normally take actions based on the analysis of the various reports contained in financial statements. According to Sec 359(4) of CAMA, 1990 as amended, one of these reports is the report by the audit committee. This report is used to comment and communicate on the report of the external auditors, the objections or queries as well as the response
from management; state if proper procedures have been followed by the auditors in the course of performing their audit … just to mention a few. However, the cause of disagreement is on how relevant this report is in the financial statements. Inferring from CAMA, 1990 as amended, the audit committee report must be relevant hence, its inclusion in the financial statements.

1.1 Statement of the Research Problem

Abbott and Parker, (2000); Krishnan, (2005), asserts that audit committees have been in existence for decades. However, there are criticisms of the practices of audit committees and their relevance. This committee according to CAMA, 1990 as amended consists of shareholders and directors who are expected to carry out oversight functions and present their report to shareholders contained in the financial statement. However, these committee members might not be capable to handle the expected responsibilities since the same law is silent as to their professional capacity or qualifications. Furthermore, does the inclusion of the report by this committee in the financial statement have any effect on the decisions users would make? Does it not amount to duplication of efforts or information overload to have both the reports of the audit committee and external auditor in just one financial statement? These and many more have informed our sudden interest in this area. Undertaking this study is justified from the purview of the decision usefulness of financial statements. It is a known fact the that financial statement is a source of information to aid users in decision making however, provision of this information will require an analysis of the benefit and associated cost of providing it. If the associated cost outweigh the benefit, then provision of such for decision-making is not relevant. Therefore, a question worth answering is if the cost of including the audit committee report in the financial statement outweighs the information benefits it provides. Hence, the importance attached to a study as this that seeks to examine users’ perception of the inclusion of audit committee report in corporate financial statements. This study will indeed contribute to the existing debate on the importance or otherwise of including the audit committee report in the financial statement. Furthermore, the management team of companies stands to benefit, as this work will reveal if the audit committee report in the financial statement add value to decision making or is just an item of more cost.

For the sake of clarity, the following research questions are raised.

1. Does the audit committee report significantly influence the decisions made by users of financial statements?
2. Can the report from the audit committee be said to add credibility to the financial statement?
3. Can the inclusion of the audit committee report in the financial statement significantly affect the quality of financial reporting?

1.2 Research Objectives

The objectives of this paper are to:

1. Examine if the audit committee report significantly influence the decisions made by users of financial statements
2. Find out whether the report from the audit committee can be said to add credibility to the financial statement.
3. Determine if the inclusion of the audit committee report in the financial statement significantly affect the quality of financial reporting.

2.0 Review of Literature
The statutory duty of preparing and presenting corporate financial statements rests with management. However, to ensure credibility and confidence in the report, CAMA, 1990 as amended also requires that the financial statements be audited by an independent third party having the professional capacity to do so. Over time, the conflicts between this third party (external auditor) and directors led to the establishment of audit committees charged with an oversight function. The audit committee is expected to disclose its responsibilities as a report in the financial statement. Some scholarly publications on the issue of audit committee include: Anyaduba (2006), Fearnley and Beattie (2004), Ayinde (2002), Urbancic (1991), Williams (1977).

2.1 Historical Background of Audit Committee

The development of audit committees in the corporate environment can be divided basically into two periods: voluntary establishment period and mandatory establishment period. The former was prior to 1970 while the latter is subsequent to 1970. According to the Canadian Institute of Chartered Accountants [CICA] (1981), Canada was the first country to legally introduce Audit committees after which, the USA followed suits. In 1970, audit committees were constituted in the mentioned countries as a result of several corporate collapses and questionable conduct that severely tarnished the reputation of major organizations (The Canadian Institute of Chartered Accountants [CICA], 1981). Some of these organizations are the Atlantic Acceptance Corporation Ltd., Penn Central Company... just to mention a few. In 1978, as the pressure from the public as well as Security and Exchange Commission (SEC) mounted for public companies to be mandated to establish audit committees, they became a part of requirements for listing on the New York Stock Exchange (NYSE).

Urbancic (1991) asserts that the need for these committees was further heightened in 1987 when the Treadway Commission recommended that audit committee be established by all public companies in order to enhance financial reporting quality. Today, the recommendations by the Blue Ribbon Committee in 1999, the Auditing Standards Board (SAS 61 as amended), the SOX Act of 2002...just to mention a few are justifications for the continued operations of the audit committee as these recommendations were further proposed because of the corporate failures of Enron, WorldCom, Adelphia Communications, and others. The failure of Enron was a huge upset in corporate financial reporting and auditing. Due to the nature of the global capital markets and ripple effect of the corporate scandals in Europe, the Sarbanes-Oxley style reforms have now been adopted almost throughout the globe. Furthermore, the SEC recently adopted more rules and standards that focus on the composition and operations of audit committees with the expectation of improving financial reporting quality.

2.2 Legal Framework of Audit Committee

So many legislations have been promulgated concerning the issue of audit committees. However, a few of them will be discussed here.

2.2.1 Company and Allied Matters Act (1990, as amended)

In Nigeria, CAMA is the law governing the operations of companies carried on within its geographic boundary. It requires that the audit committee be established by public companies to strengthening the independence of external auditors and quality of financial statements. Below are the relevant and supporting sections:

Section 359(3) requires that an audit committee be established by public companies to whom also the external auditor will report to.
Section 359(4) of CAMA, provides that an audit committee shall comprise an equal number of directors and representatives of the shareholders of the company. The membership is restricted to a maximum of six persons who shall be subject to re-election annually.

Section 359(5) states that any member may nominate a shareholder as a member of the audit committee by giving a notice in writing of such nomination to the secretary of the company at least 21 days before the annual general meeting.

Section 359(6) states the objectives and functions of the committee as follows:

(a) Ascertain whether the accounting and reporting policies of the company are in accordance with the legal requirement and agreed ethical practice;

(b) Review the scope and planning of the audit requirements;

(c) Review the findings on management matters in conjunction with the external auditor and departmental responses thereon;

(d) Keep under review the effectiveness of the company’s system of accounting and internal control;

(e) Make recommendations to the board as regards the appointment, removal and remuneration of the external auditors of the company; and

(f) Authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.

This functions and duties are expected to be reported to the shareholders in what is referred to as audit committee report.

2.2.2 Sarbanes Oxley Act [SOX] (2002)

According to Grunfeld, Glusband and McTamaney (2003), the Sarbanes-Oxley Act was promulgated in July 2002 in reaction to the scandals emaciating from corporate executives and independent auditors alike. Its objective as stated in the Act is to “protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes”. That is, the Act is aimed at improving corporate governance practices as a whole. The Act created a set of corporate disclosures and financial reporting reforms. The following is a brief description of the principal provisions of the Act relating to audit committees.

2.2.3 Audit Committee Responsibilities (S301)

Whether or not stakeholders agree to be audit committee members, it is expected that companies have one. If the company fails to select one, the Act will deem the entire board of directors to be the audit committee. The Act requires that the audit committee be responsible for the following:

• The appointment, compensation and oversight of the company's independent accountant;

• Have solely in its composition, independent directors;

• Establish procedures and rules for handling complaints by employees concerning accounting and auditing matters and
• Have the responsibility and commensurate authority to engage the services of other independent advisors.

To enforce compliance to the directive, the Act and its rules direct the regulatory authorities to prohibit the listing of any security of a company whose audit committee does not comply with all of the above requirements.

Furthermore, the SEC in 2003 published final rules (the "April 9th Final Rules") addressing audit committee responsibilities. The Rules require companies to make public the names of members of the audit committee in the company's annual report as well as disclose if by default, the board of directors constitutes the audit committee.

2.3 Conceptual Framework for Audit Committee

The earliest evidence of the use of audit committees was in the United States in the late 1930s when the New York Stock Exchange advised corporations to set up audit committees (Armitage and Bradley, 1994). By 1978, the establishment of audit committees had become mandatory for all companies listed in the New York Stock Exchange (Williams, 1977).

According to the SOX 2002, an audit committee refers to:

A committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer; and if no such committee exists with respect to an issuer, the entire board of directors of the issuer.

Ayinde (2002) opines that the audit committee is a standing committee established to enhance corporate accountability by working with the internal auditors and management to improve and strengthen the financial reporting practices of an entity and ensure proper conduct of corporate affairs in accordance with generally accepted ethical and legal standards.

Nnadi (1999) asserts that audit committees were originally conceived as a means of ensuring the independence and effectiveness of the external auditor. Furthermore, Knapp (1987) observed that an audit committee is more likely to support the auditor rather than management in audit disputes and the level of support is consistent across members of the committee.

Audit committee is made up of an equal number of directors and shareholders. This enables it to effectively check the powers of the executive directors, with particular reference to the accounting and financial reporting functions. It further strengthens the reporting functions as it enhances the independence of auditors by allowing them to report to a body that is independent of the executive directors.

Audit committees serve as a bridge in the communication network between internal and external auditors and the board of directors. Their activities include the review of nominated auditors, overall monitoring of the audit assignment, results of the audit, internal financial controls and financial information for publication (Federal Committee on Corporate Governance (FCCG), 1999). Indeed, the existence of an audit committee in a company would provide a critical oversight of the company’s financial reporting and auditing processes (FCCG, 1999; Walker, 2004).

Klein (2002), Krishnan (2001) Carcello and Neal (2000), Dechow, Sloan and Sweeney (1996), McMullen (1996) are example of prior researches that have shown a relationship between weaknesses in governance and poor financial reporting quality, financial statement fraud, and weaker internal controls. Furthermore, the Securities and Exchange Commission (SEC) cites that the key to poor quality of financial statements is regulatory oversight. Consequently, they resolve to improve financial reporting effectiveness by
introducing the establishment of audit committees. Thus, they issued and force a rule for public companies (see the Blue Ribbon Committee, (BRC), 1999).

The audit committee boosts an investor confidence in the operations of firm with governance practice (Price Waterhouse, 1997). Its members are expected to have knowledge and experience of business, business risk, oversight performance, financial situation and accounting policy that can help to monitor the activities of a firm. Therefore, corporate boards and audit committees are both valuable and rare resources of any organization. In the long run, firms with higher resources and capability tend to gain reputation or credibility.

2.4 Audit Committee Report

The audit committee is expected to communicate to the stakeholders the outcome of their duties and functions. They do this via the report. According to SOX (2002), the term audit report is use to describe a document or record usually prepared after an audit assignment performed for purposes of compliance and determination of the true state of affairs of a company wherein a public accounting firm either expresses an opinion concerning the affairs of that company regarding its financial statement or asserts that no such opinion can be expressed. When such report is prepared by the audit committee as tailored to their responsibilities, it can then be seen as an audit committee report.

According to CAMA, 1990 as amended, the chairman of the committee is expected to disclose the oversight function carried out as a separate report. According to Auditing and Assurance Standards Board, this report will normally have the following information:

• The audit committee's roles and responsibilities, structure and membership, and its principal activities during the year.

• Any resolutions and recommendation of the audit committee

• Information about the audit processes and the results of work carried out by the auditors

• Any observation of the audit committee about the external auditors' independence

2.5 Corporate Financial Statements

Financial statements are described as the end product of accounting transactions or economic events aimed at providing qualitative and quantitative financial information to evaluate and predict the performance of the organization to permit informed judgement and decision making (Ilaboya, 2005).

Smullen and Hand, (2005), defined financial statements as the annual statements summarizing a company’s activities over the last year. They consist of the profit and loss account; balance sheet; cash flow statement; Directors report; Audit committee report; value added statement; five year financial summary; Auditors report and supporting notes.

According to International Accounting Standard (No 1), General purpose financial statements (Also known as financial statements) are those statements prepared to meet the information needs of users who are in no position to require an entity to prepare reports tailored to their particular information needs. International Federation of Accountants (IFAC, 2007) opines GPFS as financial statements issued for users that are unable to demand financial information to meet their specific information needs. Similarly, the Statement of Accounting Concepts (No 2) defines GPFS as meaning a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. From the foregone, it is observed that general purpose financial statements are prepared to meet users who we might term “general users”. These statements are not meant to provide information to people who require specific information and have the authority to
request for them (Examples include: Tax Authorities, CBN, Donors) although they can still serve the use of this group.

Financial reporting quality is important to the users. Prior research shows that users of financial statements are: investors, creditors, government, shareholders and that the quality of transparency of financial reporting represents the underlying business (Levitt, 1999). Furthermore, disclosure and transparency are important factors of high quality reporting.

2.6 Research Hypotheses

Finally, in light of the foregoing discussions and exploration of literature, the following hypotheses stated in their null forms have been formulated.

1. HO- The audit committee report does not significantly influence the decisions made by users of financial statements.

2. HO- The report from the audit committee cannot be said to add credibility to the financial statement.

3. HO- The inclusion of the audit committee report in the financial statement does not significantly affect the quality of financial reporting.

3.0 Methodology

Prior researches on the subject matter employed different statistical tools. Muhamad-Sori, Abdul-Hamid, Mohd-Saad, and Evans (2007) used the Mann Whitney test together with postal questionnaires in carrying out their survey research; Urbancic (1991) employed a controlled experiment settings together with questionnaires, Phuangthip and Phaproke (2010) applied the ordinary least square regression analysis (OLS) while carrying out their research... just to mention a few. However, we shall apply the Chi Square statistical tool together with questionnaires, as we intend to relax on the normality of our population and sample, which though, is over 50.

The research design employed in this work is the survey design. The population under consideration consists of the users of financial statements. The simple random sampling method, which is a kind of probability technique, has been used to pick our sample from the population so as to give every member of the population equal chance of being chosen.

The data used for the purpose of this work was primary data. The information elicited from the questionnaire distributed to respondents within the geographic scope forms our primary data, while other documented evidences were used as the situation determined.

3.1 Data Presentation and Analyses

3.1.1 Reliability Test

Table 1- Cronbach Reliability Test

<table>
<thead>
<tr>
<th>Section B</th>
<th>Cronbach Alpha</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questions 4-10</td>
<td>0.972</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Researchers’ computation (2013)

A critical look at the above table reveals the extent of internal consistency of the scales and questions put forward to respondents. On the average, the cronbach’s alpha is approximately 98%, which according to the George and Mallory (2003) is accorded the score of excellence as regards reliability of research instrument.
3.1.2 Demographic Factors and Descriptive Statistics

Table 2- Demographic Distribution of Respondents

<table>
<thead>
<tr>
<th>Users</th>
<th>Number</th>
<th>Percentage (Absolute)</th>
<th>Percentage (Relative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>12</td>
<td>6.7</td>
<td>0.067</td>
</tr>
<tr>
<td>Shareholders</td>
<td>57</td>
<td>31.7</td>
<td>0.317</td>
</tr>
<tr>
<td>Investors</td>
<td>36</td>
<td>20.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Employees</td>
<td>42</td>
<td>23.3</td>
<td>0.233</td>
</tr>
<tr>
<td>Others</td>
<td>33</td>
<td>18.3</td>
<td>0.183</td>
</tr>
<tr>
<td>Total</td>
<td>180</td>
<td>100</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Researchers’ computation (2013)

Table 3- Distribution of Report-Interest in the Financial Statement

<table>
<thead>
<tr>
<th>Report Interest</th>
<th>Number</th>
<th>Percentage (Absolute)</th>
<th>Percentage (Relative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Loss only</td>
<td>60</td>
<td>33.3</td>
<td>0.333</td>
</tr>
<tr>
<td>Balance Sheet only</td>
<td>30</td>
<td>16.7</td>
<td>0.167</td>
</tr>
<tr>
<td>Audit Committee Report only</td>
<td>6</td>
<td>3.3</td>
<td>0.033</td>
</tr>
<tr>
<td>Auditors Report only</td>
<td>6</td>
<td>3.3</td>
<td>0.033</td>
</tr>
<tr>
<td>Two or more reports</td>
<td>21</td>
<td>11.7</td>
<td>0.117</td>
</tr>
<tr>
<td>The whole financials</td>
<td>39</td>
<td>21.7</td>
<td>0.217</td>
</tr>
<tr>
<td>Unanswered</td>
<td>18</td>
<td>10.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>180</td>
<td>100</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Researchers’ computation (2013)

From the table 2 above, it is evident that our users cut across different sections so as to at least capture a wider range of perception. This is also in line with literature, as we do not just have one single class of users. Of the two hundred distributed questionnaires, the returned ones totaled one hundred and eighty (180). However, of the one hundred and eighty (180), only one hundred and sixty-two (162) were completely filled and useful, hence giving us a response rate of 81%. Shareholders represent the largest class (31.7%) and managers the smallest (6.7%).

Furthermore, from table 3, majority of our respondents (33.3%) are interested in the profit and loss statement however, the opposite is the case for both the audit committee report and the external auditors report. It must be stated that this does not say much as it is possible that those belonging to the group of two or more reports and the whole financials will be interested also in the audit reports.
Table 4- Questionnaire Response Analysis

<table>
<thead>
<tr>
<th>Questions</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Total</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>33(20.4%)</td>
<td>72(44.4%)</td>
<td>9(6%)</td>
<td>30(18.5%)</td>
<td>18(11.1%)</td>
<td>162</td>
<td>3.44</td>
</tr>
<tr>
<td>5</td>
<td>21(13%)</td>
<td>81(50%)</td>
<td>3(1.8%)</td>
<td>33(20.4%)</td>
<td>24(14.8%)</td>
<td>162</td>
<td>3.26</td>
</tr>
<tr>
<td>6</td>
<td>24(14.8%)</td>
<td>69(42.6%)</td>
<td>12(7.4%)</td>
<td>30(18.5%)</td>
<td>27(16.7%)</td>
<td>162</td>
<td>3.20</td>
</tr>
<tr>
<td>7</td>
<td>36(22.2%)</td>
<td>81(50%)</td>
<td>6(3.6%)</td>
<td>18(11.1%)</td>
<td>21(13%)</td>
<td>162</td>
<td>3.57</td>
</tr>
<tr>
<td>8</td>
<td>48(29.6%)</td>
<td>60(37%)</td>
<td>27(16.7%)</td>
<td>15(9%)</td>
<td>12(7.4%)</td>
<td>162</td>
<td>3.72</td>
</tr>
<tr>
<td>9</td>
<td>27(16.7%)</td>
<td>45(27.8%)</td>
<td>15(9%)</td>
<td>48(29.6%)</td>
<td>27(16.7%)</td>
<td>162</td>
<td>2.99</td>
</tr>
<tr>
<td>10</td>
<td>39(24.1%)</td>
<td>78(48.1%)</td>
<td>9(6%)</td>
<td>18(11.1%)</td>
<td>18(11.1%)</td>
<td>162</td>
<td>3.63</td>
</tr>
</tbody>
</table>

Source: Researchers’ Computation (2013)

From the table above, the analysis of the response to question 4, indicates that 33 (20.4%) respondents ticked strongly agree, 72 and 9 ticked agree and undecided respectively which represented 44.4% and 6% of the total respondents while 30 (18.5%) and 18 (about 11%) ticked disagree and strongly disagree respectively. Furthermore, the mean stood at 3.44. The response to question 5 shows that 21 respondents ticked strongly agree, while 81 and 3 of the respondents chose agree and undecided respectively. Also, about 20.4% and 14.8% of the respondents ticked disagree and strongly disagree while the mean is 3.26. The analysis of the response to question 6 reveals that 24, 69 and 12 of the respondents chose strongly agree, agree and undecided respectively which represents 14.8%, 42.6%, and 7.4% of the sample while 30 and 27 respondents ticked disagree and strongly disagree respectively. The response to question 7 shows that 36 (22.2%), 81(50%), and 6(3.6%) of the respondents ticked strongly agree, agree and undecided respectively, while about 24% had contrary views. The analysis of the response to question 8 reveals that 48, 60, and 27 respondents ticked strongly agree, agree and undecided respectively. The mean of the responses stood at 3.72.

The analysis of the responses to question 9 and 10 indicates that the means stood at 2.99 and 3.63 respectively while the number of respondents that agreed to the questions was 72 and 117 respectively.

3.2 Hypotheses Testing and Analysis

This section relates to the testing of hypotheses earlier stated. For the sake of understanding, the hypotheses will be restated before presenting the result analyses. The decision rule is to reject the null hypothesis and accept the alternative if the $X^2$ calculated is greater than the critical value of $X^2$ at 5% significant level with degree of freedom of 4

**Hypothesis One:** The audit committee report does not significantly influence the decisions made by users of financial statements.
From the above analysis, the null hypothesis is rejected and the alternate accepted since the calculated $X^2$ value (34.58) is greater than the table $X^2$ value of 9.488 at 95% confidence interval.

**Hypothesis Two:** The report from the audit committee cannot be said to add credibility to the financial statement.

The analysis above, require that the alternate hypothesis be accepted and the null hypothesis rejected since the calculated $X^2$ value (30.97) is greater than the table $X^2$ value of 9.488

**Hypothesis Three:** The inclusion of the audit committee report in the financial statement does not significantly affect the quality of financial reporting
### Summary of Findings

1. Users significantly agree that the audit committee report influence their decision making process. That is, most users take into consideration what is contained in the audit committee report before making their decision. This finding is in line with the arguments of Muhamad-Sori, Abdul-Hamid, Mohd-Saad, and Evans (2007) but has opposite view when compared with the findings Urbancic (1991).

2. The audit committee report, which brings to light the responsibilities and duties of the audit committee, according to users’ perception, adds to the credibility of the financial statement. Users believe that the inclusion of the audit committee report in the corporate financial statement enhances its relevance hence, may be argued not to be duplication of efforts. This view is also contrary to the view shared by Urbancic, (1991).

3. Quite similar to the above is the issue of financial reporting. Users are persuaded that the inclusion of the audit committee report in the financials does not significantly improve the financial reporting quality an organization. The opposite has been the view and standpoint of the Treadway commission, 1987 that asserts that the audit committee report is a tool for improving financial reporting process. Our findings goes contrary with the line of reasoning of Anyaduba (2006) who asserts that audit committee impact significantly on corporate governance thus, improving reporting quality.

### Conclusion

We have examined users’ perception of the relevance of the audit committee report in the financial statement. In the first section, we stated the research problems, objectives, as well as hypotheses to be tested. Next, we reviewed relevant literature on the subject matter. Furthermore, our research methodology, design, presentation, and analysis of results were highlighted.
Users’ perception of a subject matter is highly subjective, however, from the work done, it is safe to say that the audit committee report in itself is relevant but to include it as a compulsory report may not be quite necessary, as most financial statement users do believe that it does not significantly affect the quality of financial reporting.

5.0 Recommendations

In light of the foregoing discussions, it is our opinion and recommendation that the following should be put in place.

Since the audit committee report is seen as to not significantly affect the quality of financial reporting, it should not be a compulsory report so as to reduce cost, waste and make the financial statement brief yet weighty and relevant.

The law is silent on the issue of remuneration of audit committee members. However, to motivate members of this group, which in turn will help improve their reporting quality, moderate allowances should be given. It must however be stated that this allowance given should be fixed and paid by the shareholders not management so as to puncture the independence of the committee. Furthermore, to safeguard independence, the enabling law can fix a remuneration amount for audit committees as against individual companies fixing diverse amounts.

To improve users’ perception of the credibility of audit committee reports, the law should categorically state the qualification requirements for its member just as it did for external auditors.

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