Do Audit Committee Size and Financial Expertise impact on Discretionary Loan Loss Provision? Evidence from Deposit Money Banks in Nigeria

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Abstract: *This study investigates the impact of audit committees' size and financial expertise on the discretionary loan loss provision of listed Deposit Money Banks in Nigeria. The study employed correlation research design using a sample of 14 banks for a period of 5 years (2009-2013); Ordinary Least Squares multiple regression technique of data analysis was employed. The study found a significant association between discretionary loan loss provision and Audit Committee characteristics. The study also found that the Audit Committee Size of the sampled Deposit Money Banks has significant negative impact on the discretionary loan loss provision. Similarly, the study found that the audit committee financial expertise of the sampled Deposit Money Banks has significant negative impact on the banks' discretionary loan loss provision. Based on the findings from this study, the study recommends that listed Deposit Money Banks in Nigeria should increase the size of their Audit Committees' membership. Such increment in the number should be watched in order not to be too large at the expense of economies of scale and increment in cost related to the committee operations. Also, owners and directors to be appointed to serve in Audit Committees should be experts on financial statements analysis and interpretation. This will reduce the earnings management and the level of discretionary loan loss provisions of Deposit Money Banks in Nigeria.*

Keywords: *Audit Committee, Deposit Money Banks, Discretionary Loan Loss Provision, Financial Expertise, Size, Nigeria*

1. Introduction

The primary role of financial statements is to report a company's financial information to internal and external users in a timely and reliable manner. A major component of this annual report is accounting earnings, which are used for investments and other economic decisions. Some major decisions that are shaped by available financial information in annual reports are: executive compensation, debt covenant and perhaps raising capital. Ideally, the reported earnings should reflect a firm's operating underlying economics and facilitate efficient resource allocation within the firm. However, the discretion that management has in collecting and reporting firm's specific information over external users gives it the opportunity to present earnings in a manner that is most suitable. This is commonly referred to as earnings management.

Prior researches generally conclude that managers engage in earnings management for many reasons and probably exercise their accounting discretion to influence reported earnings. First, they manipulate earnings because of capital market incentives, including implementing management buyouts plan, initial public offerings (IPO), seasoned equity offerings and mergers plan, to meet earnings forecasts or to smooth income, etc. Second, they implement earnings management because of contracts motivation (e.g. management compensation plans, debt agreement or job preservation). Third, they conduct earnings management due to regulation motivation, such as import regulation, industry regulation and antitrust law, etc. Regardless of whichever causes managers to manipulate earnings, the behavior of earnings management implies conflict of interest between managers, owners, and minority shareholders.

The bank managers, like managers in other industries, have incentives to "adjust" earnings and maximize bank and/or manager's wealth. The only difference is the method used to engage in earnings management. Unlike managers in other industries, bank managers usually utilize loan loss provisions to influence earnings reported. Collins, Shackleford and Wahlen (1995) examined the impact of individual bank's

changing levels of capital, earnings and taxes on decisions to engage in some capital-raising options. They expect low levels of nondiscretionary current earnings will encourage managers to realize investment security gains as well as decrease loan loss provisions and conclude a positive relation between earnings and loan loss provisions. Shrieves and Dahl (2003) also indicated that bank managers intend to realize short-term security gains or losses and utilize loan loss provisions to smooth earnings.

Furthermore, earning (including tax consideration) is one of the most important indicators in performance measurement for bank managers. In addition to earnings, non-performing loan ratio and capital adequacy ratio (hereafter, capital ratio) are the other two key indices to measure manager's performance. Hence, under compensation incentive and job preservation consideration, they will endeavor to improve earnings, raise capital ratio and keep non-performing loans ratio below standard level in order to meet their goals. Once they cannot reach the target, they may use accruals, loan loss provisions, loan charge-offs, realization of gains or losses of securities or miscellaneous gains and losses to "adjust" the figures of earnings, capital ratio and non-performing loans ratio. In practice, bank managers have discretionary powers to influence the level of loan loss provisions. Thus, financial reporting quality has been under scrutiny and various ideas and theories have surfaced, all trying to link the financial reporting quality to certain factors including corporate governance mechanism with emphasis on specific audit committee characteristics (Shrieves & Dhal, 2003; Dhahiwal, Naiker, & Navissi, 2010).

However, the concern for how banks should be governed lies precisely with the increasing impact of private corporate behavior of the collective welfare of the economy. Hence, the code of corporate governance for banks in Nigeria: post consolidation (2006) mandated all banks to establish and maintain an audit committee whose members should be non-executive directors and ordinary shareholders appointed at the AGM, and should be knowledgeable in internal control processes. The link between audit committee and financial information quality has been strongly discussed in the developed countries. Audit committee has been long seen as a vital institution in assisting the board of directors in enhancing the transparency and integrity of financial information reporting (Abdul & Mohamed, 2006; Jerry, Turner, & Carol, 2010). According to the Blue Ribbon Committee report, the audit committee is "first among equals in the financial accounting process and is the "ultimate monitor" of this process.

Like most industries around the world, the Nigerian banking industry has undergone through times with recent financial crises which saw the collapse of some prominent banks such as Oceanic bank and intercontinental bank which were eventually acquired by Eco bank and Access bank respectively. This among other things led to the challenge of the governance practice of Deposit money banks (DMBs) in Nigeria. The introduction of governance practices by CBN in 2003 and its constant modification are all in the interest of effective monitoring; to align the interest of shareholders with that of managers. It is generally observed that undesired banking practices such as poor risk diversification, inadequate loan loss provision is one of the major causes of these financial crises and its provision has a direct impact on firms' cash flows and consequently the reported earnings (Chang, Shen & Fang, 2008; Mohammad, Mohammad, & Rahmat, 2007).

The use of loan loss provision to manipulate reported earnings has been widely discussed in the literature particularly in the light of developed countries. Different reasons for it have been proffered by researchers including capital market incentives, contracts motivation and regulation motivation. In this regard, Chang, *et al.,* (2008) noted that bank managers use discretion regarding loan loss allowance to manage earnings. The basic argument is that since it is replenished by a charge to earnings and the credit quality of the loan portfolio cannot be determined precisely by objective criteria, the allowance for loan losses has been shown potentially as a means to manage earnings (McNichols & Wilson, 1988; Anandarajan, Hassan, & McCarthy, 2007). Thus, from the regulators' point of view, the emphasis is on whether loan loss estimation truly reflects the prevailing economic conditions of the firm. In response to major financial scandals, the Sarbanes-Oxley Act of 2002 (SOX), currently backed by Section 359 (3) and (4) of CAMA and CBN's code of corporate governance for banks in Nigeria post consolidation (2006), was enacted to strengthen corporate governance systems to protect shareholders from fraudulent accounting practices. SOX enhances the power and responsibility of audit committees, which play a crucial role in ensuring reliable financial reporting, internal controls, external auditing, and risk management through their diligent oversight efforts.

However, prior research indicates that the construct of audit committee effectiveness over financial reporting is multidimensional and affected by variety of audit committee characteristics such as: audit committee size (Anderson, Mansi, & Reeb, 2004; Mohamed, 2010); audit committee independence (Klein, 2002); audit committee number of meetings (Jian & Chen, 2004; Klein, 2006) and others. Thus, the question arises; do the audit committee characteristics have any relationship with and impact on banks' discretionary loan loss provision and to what extent?

This study focuses on the corporate governance variables of audit committee proxy by and limited to audit committee size and audit committee financial expertise and their effect on the discretionary loan loss provision of deposit banks in Nigeria during the period of 5 years (2009-2013). The banking sector was selected because loan loss provisions are generally applied to it. The study is considered significant in the sense that it will add to the extant literature that examines the interaction between audit committee characteristics and discretionary loan loss provision in deposit money banks and contributes to the understanding of the relationship thereby. Secondly, given that almost all the works in this area are focused on samples of developed economies like U.S and Australia, this study therefore extends these research phenomena in the context of emerging economies like Nigeria. The findings are expected to be beneficial to stakeholders and policymakers like CBN, existing and potential shareholders, bank customers and researchers.

1.1 Objectives of the Study

The main objective of this study is to examine the impact of audit committee characteristics on the discretionary loan loss provision of listed deposit money banks in Nigeria. Specifically, the study is to assess the impact of audit committee size and financial expertise on the discretionary loan loss provision of listed deposit money banks in Nigeria.

1.2 Hypotheses of the Study

In line with the objectives of the study, the following hypotheses are formulated:

H_{01}: *Audit committee size has no significant impact on the Discretionary Loan Loss Provision of listed Deposit Money Banks in Nigeria.*

H_{02}: *Audit committee financial expertise has no significant impact on the discretionary loan loss provision of listed Deposit Money Banks in Nigeria.*

2. Literature Review and Theoretical Framework

2.1 Concepts of Audit Committee and Loan Loss Provision

As a result of the separation of ownership from control of the modern day business, the managers are placed at a privileged position that gives them the latitude to take decisions that could either converge with or entrench the value maximization objective of the firm. Thus, managers can use their control over the firm to achieve personal objectives at the expense of stakeholders. In this regard, Kang and Kim (2011) posited that management could influence reported earnings by making accounting choices or by making operating decisions discretionally. One of such discretionary decisions to manipulate reported earnings is imbedded in the accrual-based accounting.

Accruals are a particularly important tool for manipulative accounting because they are “components of earnings that are not reflected in current cash flows and a great deal of managerial discretion go into their construction” (Anandarajan, Hassan, & McCarthy, 2007). They are essentially temporary adjustments that shift cash flow time periods. The major benefit of this shift is that the adjusted number presents a more accurate picture of economic performance of the firm. For example, recording a receivable accelerates a future cash flow to the present.

However the benefits of accruals come at the cost of making assumptions and estimates that must be subsequently corrected in the future accrual. For example, if the net proceed from a receivable are less than the estimate, this implies that the original estimate contains an estimation error, and the closing entry records both the cash flow realization and the correction of the realized estimation error. Since errors in

estimation and their subsequent corrections are essentially meaningless noise in accruals they reduce the beneficial role of accruals. Therefore the quality of accruals and earnings is decreasing in the magnitude of accruals estimation error. In other words our measure of accrual quality is defined as the extent to which accruals map into cash flow realization, where a poor match signifies low quality accruals. At its core, accrual accounting is fairly simple: the numbers in financial statements should reflect the work and activities that occurred in the time period of those statements. So, if the income statement is for December, then the revenue and expenses in that statement are for the revenue that was earned and the expenses that it took to make that revenue (a related and important accounting principle here is the matching principle: match expenses to the revenue the expenses helped to bring in).

The problem here is that invoices, bills and cash do not always line up in the same month the activities occurred. Say an invoice comes in for something that happened a month ago. It should have been "accrued for," so that, even though there was not any invoice, the amount is in the books for the month that the activity occurred. On the revenue side, say a product was delivered, but the client did not pay until two months later. That revenue had to be "accrued" for in the month of delivery, even though neither the invoice, nor the payment for the product happened in that month. Agency theory provides a powerful theoretical framework for analyzing the behavior of managers in different organizations. In this section, the audit committees are designed to mitigate these problems and acts as monitoring mechanism on the preparers of financial statement and shareholder (Carcello & Neal, 2003). In this perspective, the audit committee' resource role serve as a source of advice and counsel for the board of directors is important in bringing valued resources to the firms using, but not limited to the following variables:

i. Audit Committee Independence

The Green Book stipulates that all public companies must have audit committees comprising three members of whom majority shall be independent. The committee oversees the reporting process as well as the internal control mechanism within an organization. Audit committee independence helps to ensure quality audits and contributes to financial statement user reliance on the financial reporting process. Thus, this relationship suggests independent audit committee members are effective to control earnings management practices

ii. Audit Committee Size

As mentioned earlier, the Green Book recommend in the audit charter, public companies need to appoint the audit committee from amongst its directors which must be composed of not fewer than three members.

iii. Audit Committee Meeting

The audit committee, which intends to play a major role in oversight, would need to maintain a high level of activity. The audit committee requires meeting at least once in a year as recommended by the Green Book. The audit committee should meet regularly, with due notice of issues to be discussed and should record its conclusions in discharging its duties and responsibilities. The frequency of audit meetings is assumed to increase the effectiveness of monitoring (Carcello & Neal, 2000).

Loan loss provision is an expense on the income statement which signifies managers' assessment of expected future losses. This means that an increase in loan loss provision reduces net income, while a fall in loan losses increases net income. Since it is the result of managers' assessment of the likely loss that the company would incur should the borrower fail to repay his obligations as at when due, the provision for it is considered to have two (2) portions: non-discretionary and discretionary portions. "Non-discretionary is a function of specific quality determinants in the loan portfolio- non-accrual loans, renegotiated loans, loans past due over 90 days, specific analyses on troubled large credits, usually implying internal grading system" (Grey & Clarke 2004: 323). The non-discretionary portion, therefore, is the provision that is based on fair and objective analysis of the firm's economic conditions. While the discretionary portion are those accruals that largely depend on the outcome of the managers' future expectation of uncertain events (Mohammad, *et al.*, 2007). The components of it are both quantitative and qualitative. Grey and Clarke (2004: 323) pointed that the qualitative components include political, economic, geographical and political factors; while the quantitative are "statistical analysis of loans not individually analyzed for special reserve and therefore are largely at the discretion of managers".

2.2 Review of Empirical Literature

At least three philosophies surround the discussion on loan loss provisioning in the banking industry. In a review of theoretical and empirical evidence regarding the estimation for loan losses, Wall and Koch (2000) noted that the philosophies include economists' view, Financial Accounting Standards Board's (FASB) view and the capital view. While the economists view loan loss allowance as the provision that is intended to capture expected future losses should the Borrower fails to pay his obligation as at when due, the FASB's view is concerned with the measurement of a firm's net income over a given period of time. The last view sees loan loss allowance as a form of capital to be accumulated in good times to absorb losses during bad time. They further noted that the philosophy from which the provision is viewed depends on the researcher's intention. But regardless of the motivation and philosophy, the behavior for earnings management implies conflict of interest between managers, owners and minority shareholders.

The reason why banks manipulate earnings is supported by three arguments: signaling argument, income smoothing or earnings management argument and capital management argument (Zhou & Chen, 2004). The signaling argument suggests that banks use discretionary loan loss provision to insinuate that earnings will be high in subsequent periods (Wahlen, 1994; Liu & Ryan, 2006; Beaver & Engel, 1996). Contrary to the signaling argument, earnings management argument holds that managers increase the Provision for loan losses in periods when earnings are high, under the assumption of income smoothing (Beatty, Chamberlain & Mogliolo, 1995; Collins, *et al.,* 1995; Abubakar, Muhammed, Abdul, & Adisa, 2004). This implies that earnings management in this area can improve a bank's cash flows, capital adequacy, market value and overall performance. While the capital management argument suggests that since increase in loan loss provision increases regulatory capital, management exercises discretion over its provision (Ahmed, Takeda, & Thomas, 1999; Beatty, *et al.*, 1995). Regardless of the industry and the strings attached, managers' discretionary behavior to achieve personal gains undermines the shareholders' wealth maximization objective of the firm.

Sanusi (2012) and Brown, Falaschetti, and Orlando (2006), among others, had provided anecdotal evidences of earnings management in the Nigerian banking sector. He in particular, explained that one of the eight reasons for the banking crisis in 2008 was “inadequate disclosure and transparency”. Amongst the technology used are account manipulation, income smoothing, creative accounting and earnings management. Whatever the terminology adopted, the whole essence is to misled users of financial statement and to render financial reports unethical with the motive of some private gain. Chotourou, Bedard and Courteau (2001) and Bedard, Chotourou and Courteau (2004) examined the relationship between corporate governance and earnings management. Firstly, they examined the relationship between audit committee characteristics and the extent of corporate earnings management as measured by the level of income-increasing and income-decreasing abnormal accruals. Using two clusters of U.S. firms; one with comparatively high and one with comparatively low levels of abnormal accruals in the year 1996; they find that aggressive earning management is associated with the financial governance expertise of audit committee members, with indicators of independence, and with the presence of a clear mandate defining the responsibility of the committee.

Zhou and Chen (2004) examined the link between audit committee and earnings management using loan loss provision by commercial banks. Using discretionary loan loss model, they discovered that banks with more active audit committees that have greater governance expertise are related with less earning management. Furthermore, Xie, Davidson and Dadalt (2001) found that audit committee meeting frequency is associated with reduced levels of discretionary current accruals. Abbott, Parker and Peters (2004) found that the independence and activity levels (their proxy for audit committee diligence) of the audit committee exhibit a significant negative association with the occurrence of restatement. Similarly, Dechow, Sloan and Sweeney (1996) and McMullen (1996) documented a significant negative relationship between the presence of audit committee and fraud.

Vineeta, Sharma and Chunli (2013) provided initial evidence on the association between voluntary audit committee characteristics and aggressive earnings management in New Zealand. They found that audit committee comprising independent (non-executive) directors reduce the likelihood of aggressive earnings management. Bedard, Chotourou, & Courteau (2004) found significant association between

audit committee governance practices and earnings management. They found that aggressive earnings management is negatively associated with the financial and governance expertise of audit committee members, with indicators of independence and with a clear mandate of defining the responsibility of the committee. Similarly, Oosterbosch (2009) tested the effect of IFRS implementation on discretionary use of loan loss provision. Using a sample of European banks and single stage regression, evidence suggests that detailed disclosure requirements regarding loan loss accounting do not deter bank managers from using the provision for loan losses to their discretion for income smoothing.

2.3 Theoretical Framework

The theory upon which the study rests is the agency theory. Agency theory has its origins in the risk-sharing problem resulting from situations where co-operating parties have different viewpoints towards risks. This risk distribution problem is extended to contracting parties under the agency theory. The agency theory addresses agency associations in which one party called the principal gives work to another called the agent. The agency theory aims at resolving the agency problem and the risk sharing problem. The agency problem arises because in an agency arrangement the goal of the principal is at variance with that of the agent, and it is difficult or costly for the principal to monitor the activities of the agent. On the other hand, the risk-sharing problem occurs because the agent and the principal have different risk attitudes, and they will therefore act differently when faced with same risk. To resolve these conflicts, the agency theory proposes a contract that will lead to a goal-congruence between principal and agent. From an agency theory viewpoint, earnings management is opportunistic (Rainsbury & Bradbury, 2009). The dichotomy between owners and managers creates moral hazard and adverse selection challenges. These situations motivate managers to engage in earnings management.

3. Methodology

The study adopted correlation research design to investigate the impact of audit committee characteristics (audit committee size and audit committee financial expertise) on the discretionary loan loss provision of listed deposit money banks in Nigeria. This research design is chosen because of two major reasons; one, the aim of correlation research design is to investigate the relationships between variables (in this study, audit committee size and audit committee financial expertise) and to observe the impact of the independent variable(s) on the dependent variable, so as to establish the causal relationship or otherwise among the variables. Thus, the design is in agreement with the objectives of this study.

The population of this study consists of all the 17 Deposit Money Banks listed on the floor of the Nigerian Stock Exchange market as at 31st December, 2014. However, after removing the three banks that their data is not available, a new population of fourteen (14) banks emerged, and was used as the sample size of the study as well. The study covers the period of five years (2009-2013). The reasons behind the study stopping at 2013 were because most of the banks' financial statements were not available at the time of conducting this study due to the delay in holding the Annual General Meeting (AGM) and the lag used in computing the DLLP. This study uses the secondary sources of data due to the fact that the estimation of the models of the study requires the use of quantitative data. Therefore, the method of data collection for the study involves the financial statements of the sampled banks for all the 5 years covered by the study. In this study, Ordinary Least Square (OLS) multiple regression method of analysis is employed. The choice of OLS as a tool of data analysis in this study is informed by the effectiveness of the technique in testing relationships among theoretically related variables and estimating the effects of one variable on the other. This is consistent with the objective of this study, which is the estimation of the impact of audit committee characteristics on the discretionary loan loss provision of listed deposit money banks in Nigeria.

3.1 Models Specification

In order to test the hypotheses formulated in this study and to achieve the objectives of the research, the following LLP Model was used to estimate discretionary loan loss provision (the residual of the model):

$$LLP_{it} = \quad + {}_{1}CO_{it} + {}_{2}NPL_{it} + {}_{3}LOAN_{it} + £_{it} \ldots\ldots\ldots\ldots \quad equation\ (i)$$

Where: LLP_{it} = Loan loss provision of bank I in year t

NPL_{it} = Change in non-performing loans of bank I in year t (current year NPL minus previous year NPL)

$LOAN_{it}$ = Change in loans of bank I in year t (current loans minus previous year loans)
Intercept =
Residual = $£_{it}$
$_1$- $_3$ = The coefficients

After estimating the discretionary loan loss provision from the model one, the model of the study is expressed as follows:

$DLLP_{it}$ = + $_1ACSIZE_{it}$ + $_2ACFEX_{it}$ + μ_{it}.............................equation (ii)

Where: $DLLP_{it}$ = Discretionary loan loss provision of bank I in year t
$ACSIZE_{it}$ = Audit committee size of bank I in year t measured by the total number of the members of the committee
$ACFEX_{it}$ = Audit committee financial expertise of bank I in year t, measured by 1 if there is a member with accounting and/or finance background, and 0 for otherwise.
= Intercept
= Coefficients
μ = Error term or residual

4. Results and Discussions

4.1 Descriptive Statistics

This part deals with the descriptive statistics of the data collected for the study. The descriptive statistics of the data collected for the variables of the study are presented in Table 1.

Table 1: Descriptive Statistics

Variables	Min	Max.	Mean	SD	N
DLLP	0.01	0.75	0.0564	0.0990	70
ACSIZE	4.00	6.00	5.5000	0.6079	70
ACFEX	0.00	1.00	0.8143	0.3917	70

Source: *SPSS Output (Appendix A)*

The descriptive statistics result in Table 1 shows that the average Discretionary Loan Loss Provision (DLLP) of the sample Deposit Money Banks is 0.0564 with standard deviation of 0.0990. This implies that, the discretionary loan loss provision deviate from the mean from both sides by 0.0564. The minimum and maximum DLLP during the period of the study are 0.01 and 0.75 respectively. The Table also indicates that the average Audit Committee Size (ACSIZE) during the period covered by the study is 5.50 with standard deviation of 0.6079. The minimum and maximum values ACSIZE during the period of the study are 4 and 6 respectively. Table 4.1 indicates that the average Audit Committee Financial Expertise (ACFEX) during the period covered by the study is 0.8143 with standard deviation of 0.3917. While the minimum and maximum values of ACFEX during the period of the study are 0 and 1 respectively.

4.2 Correlation Analysis

The following table presents the relationships among the variables the study.

Table 2: Correlation Matrix of the Variables

	DLLP	ACSIZE	ACFEX
DLLP	1.000		
ACSIZE	-0.585	1.000	
	(0.000)		
ACFEX	-0.898	0.330	1.000
	(0.000)	(0.005)	

Source: *SPSS Output (Appendix A)* (P-values in parenthesis)

The results from Tables 2 show that there is significant negative relationship between DLLP and ACSIZE of the sample deposit money banks in Nigeria, from the correlation coefficient of -0.585 which is statistically significant at 1% level of significance (p-value of 0.000). This implies that the discretionary loan loss provision decreases with an increase in audit committee size. The table shows that there is a significant negative relationship between ACFEX and DLLP, from the correlation coefficient of -0.898 which is statistically significant at 1% level of significance (p-value of 0.000). This implies that discretionary loan loss provision decreases with increase in the financial expertise of the audit committee.

4.3 Regression Analysis Result

In this section, the regression results are presented and analyzed. The hypotheses formulated for the study are also tested from the results as presented in Table 3.

Table 3: Summary of the Regression Model

Variables	Statistics	P-values
R^2	0.899	
Adj. R^2	0.896	
F-Stat	299.109	0.000
DW	1.864	
Highest VIF	1.122	
Constant	-0.017	0.000
ACSIZE	-0.324	0.000
ACFEX	-0.791	0.000

Source: *SPSS Output (Appendix A)*

The results from Table 4.3 show that the independent variables (audit committee size and audit committee financial expertise) explained 89.6% of the total variation in the dependent variable (discretionary loan loss provision) from the adjusted coefficient of multiple determinations (Adjusted R square of 0.896). The F-statistic of 299.109 implies that the model is fit at 1% level of significance as indicated by the p-value of 0.000. The Durbin Watson statistics of 1.864 implies that the value is within the range, that is, the autocorrelation in the result is not high and could not affect the estimators. Moreover, the Variance Inflation Factor (VIF) shows that there is absence of multicollinearity among the explanatory variables, because the highest VIF is 1.122. The decision criterion is that a VIF value of 10 and above indicates severe collinearity.

4.4 Hypotheses Testing

The results from Table 4.3 show that the ACSIZE of the sample deposit money banks has significant negative impact on the DLLP, from the coefficient of -0.324 which is statistically significant at 1% level of significance (p-value of 0.000). This implies that discretionary loan loss provision decreases by 32.4k when the audit committee is increased by one member. Based on this evidence, the study reject the null hypothesis one (H_{01}) which states that audit committee size has no significant impact on the discretionary loan loss provision of listed deposit money banks in Nigeria. Similarly, the results from Table 4.3 show that the ACFEX of the sample deposit money banks has significant negative impact on the DLLP, from the coefficient of -0.791 which is statistically significant at 1% level of significance (p-value of 0.000). This implies that discretionary loan loss provision decreases by 79.1k when the audit committee is increased by one member with financial expertise. Based on this evidence, the study reject the null hypothesis two (H_{02}) which states that audit committee financial expertise has no significant impact on the discretionary loan loss provision of listed deposit money banks in Nigeria.

4.5 Discussions of Major Findings

The study found from the data and results analysis a significant association between discretionary loan loss provision and audit committee characteristics. The study found that the independent variables (audit committee size and audit committee financial expertise) explained 89.6% of the total variation in the dependent variable (discretionary loan loss provision). This is in agreement with the studies of Abbott, Parker and Peters (2004) and Vineeta, Sharma and Chunli (2013). The study also found that the Audit

Committee Size (ACSIZE) of the sampled Deposit Money Banks has significant negative impact on the discretionary loan loss provision (DLLP), suggesting that discretionary loan loss provision decreases when the audit committee is increased by one member. This finding is also in concordance with the findings of Dechow, Sloan, and Sweeney (1996), McMullen (1996), and Zhou and Chen (2004); but disagrees with the findings of Abbott, Parker and Peters (2004) on the size of the Audit Committee. Similarly, the study found that the audit committee financial expertise (ACFEX) of the sample deposit money banks has significant negative impact on the discretionary loan loss provision (DLLP), suggesting that discretionary loan loss provision decreases when the audit committee is increased by one member with financial expertise. The findings from this study implied that the attributes of audit committee like size and financial expertise can be used to address the earnings management through discretionary loan loss provision in the Nigerian banks. This confirms the findings of Chotourou, Bedard and Courteau (2001) and Bedard, Chotourou and Courteau (2004).

5. Conclusion and Recommendations

This study found a significant association between discretionary loan loss provision and audit committee characteristics. The study found that the independent variables (audit committee size and audit committee financial expertise) explained 89.6% of the total variation in the dependent variable (discretionary loan loss provision). The study also found that the audit committee size (ACSIZE) of the sample deposit money banks has significant negative impact on the discretionary loan loss provision (DLLP), suggesting that discretionary loan loss provision decreases when the audit committee is increased by one member. Similarly, the study found that the audit committee financial expertise (ACFEX) of the sample deposit money banks has significant negative impact on the discretionary loan loss provision (DLLP), suggesting that discretionary loan loss provision decreases when the audit committee is increased by one member with financial expertise.

Based on the findings, the study concludes that there exist a significant association between discretionary loan loss provision and audit committee characteristics. Additionally, the study concludes that the audit committee size of Deposit Money Banks has significant negative impact on the banks' discretionary loan loss provision during the period covered by the study. Similarly, the study concludes that audit committee financial expertise of the sampled Deposit Money Banks has significant negative impact on the discretionary loan loss provision during the period under review. Based on the findings from this study, the study recommends that:

1. Listed Deposit Money Banks in Nigeria should increase the size of their Audit Committees' membership. Such increment in the number should be watched in order not to be too large at the expense of economies of scale and increment in cost related to the committee operations.

2. Owners and directors to be appointed to serve in Audit Committees should be experts on financial statements analysis and interpretation. This will reduce the earnings management and the level of discretionary loan loss provisions of Deposit Money Banks in Nigeria.

3. The Board of Directors of Deposit Money Banks in Nigeria should make policies that could improve the effectiveness and efficiency of their audit committees in line with their core responsibilities.

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