Chapter 28
Audit Committee Composition and Corporate Risk Disclosure in Emerging Country

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Abstract This study examines the effect of audit committee structure on the amount of risk information disclosed by banks in the emerging country. The sample of the study comprises eight banks listed on the Nigeria Stock Exchange. The data was collected from 72 annual reports for the year 2010–2018. The manual content analysis and regression methods were the analytical tools employed for the analysis of our panel data. The content analysis outcomes demonstrate that the frequency of operational risk disclosure is substantially greater than strategic and environmental risk disclosures. It is also discovered that good news, non-monetary, and backward-looking risk information are perceived to be less relevant to stakeholders' decisions and nevertheless have considerably outweighed the most relevant information concerning bad news, monetary, and forward-looking risk information. Meanwhile, the number of independent directors in the audit committee, the presence of an independent chairperson in the audit committee, and the frequency of audit committee meetings have a significant positive effect on the quantity of risk information to disclose. However, the audit committee size and the existence of non-executive members in the audit committee are statistically insignificant; hence they do not influence the movement of risk information disclosure. The overall risk disclosure practice involving Nigerian banks is inadequate as the general statements and risk definitions and other irrelevant risk information are the most common practices adopted by banks. This disclosure behavior tends to promote agency costs between management and various corporate stakeholders.

Key words Corporate risk disclosure · Risk management · Corporate governance · Audit committee · Content analysis

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28.1 Introduction

The Company and Allied Matters Acts (CAMA) have required corporate shareholders to appoint an independent auditor to revisit the financial statements and express their professional opinion on the state of company affairs. The rationale behind seeking the auditors' opinion is to ensure the quality of the financial statement that might boost investors' confidence. However, the increase in devastating corporate failure that is recurrently connected with management malpractice has raised questions on the auditors' opinion as well as the quality of financial statements. In their effort to address the problem, the Institute of Chartered Accountants in England and Wales has released a discussion paper in 1998 that pinpointed the importance of risk disclosure (Grassa et al., 2020). This discussion paper was the first that recommended corporate entities to report their risk profile in their annual report (Grassa et al., 2020), and the title of the paper was Financial Reporting of Risk Proposals for a statement of business risk. Moreover, the 2007–2009 financial crisis that occasioned economic slowdown across the globe has motivated many stakeholders to intensify the advocacy of effective corporate governance (Ivashkovskaya & Nadezhda, 2009; Al-maghzom et al., 2016) and risk disclosure. Internal control system and effective risk management transparency have turned out to be an essential part of corporate governance (Vergauwen et al., 2009). Moreove, risk disclosure is currently a crucial trait of business risks (Beretta & Bozzolan, 2004; Linsley et al., 2006), and risk management signifies a key aspect of corporate economic stability, financial health, and resilience (Lajili et al., 2020) as greater information disclosure improves corporate transparency and investors' confidence. The regulatory reforms (BASEL II and IFRS 7) that require greater measures on risk transparency and disclosure (Al-maghzom et al., 2016) and an effective corporate governance system are the power that facilitates the economic recovery (Ivashkovskaya & Nadezhda, 2009).

Meanwhile, many scholars from diverse jurisdictions have indicated greater interest in risk disclosure research. For example, the studies (Solomon et al., 2000; Deumes & Knechel, 2008; Rajab & Handley-Schachler, 2009; Oliveira et al., 2011; Barakat & Hussainey, 2013; Elshandidy et al., 2013, 2015; Elamer et al., 2017; Netti, 2018) have explored risk disclosure practice involving advanced economies. Equally, the other studies employed the emerging countries datasets (Adamu, 2013; Al-maghzom et al., 2016; Elamer et al., 2017; Neifar & Jarboui, 2018; Elghaffar et al., 2019; Khlif & Hussainey, 2016; Abdallah et al., 2015; Viljoen & Enslin, 2016; Ishtiaq et al., 2017; Seta & Setyaningrum, 2018; Mazaya & Fuad, 2018; Habtoor et al., 2018; Grassa et al., 2020; Adamu, 2021; Adamu & Ivashkovskaya, 2021; Albitar, 2015) and tested different economic theories that explain corporate risk disclosure behavior. Meanwhile, the relevance of risk disclosure cannot be overemphasized as the previous studies provide evidence that risk disclosure is associated with the improvement of corporate risk management (ICAEW, 2002), the reduction of information asymmetry and agency costs (Rajab and Handley-

Schachler 2009), the protection of the investors (Linsley & Shrives, 2007), and the enhancement of the company's reputation (Yang, 2018).

Moreover, the literature has identified several factors that influence the extent of risk disclosure practice. Many corporate governance attributes such as ownership structure, board composition, and audit quality were found very relevant in explaining the extent of risk disclosed by firms. Nevertheless, the code of corporate governance has identified the audit committee as one of the monitoring mechanisms, and the practicing firms tend to lower their agency cost due to greater disclosure quality (Forker, 1992). Notwithstanding this argument, there are limited studies that have investigated the connection between the features of the audit committee and corporate disclosure (Albitar, 2015). This linearity was initially suggested by Forker (1992), in which he believes the audit committee traits might enhance voluntary corporate disclosure practice. In recent years, scholars (Al-maghzom et al., 2016) found the audit committee as one of the factors that influence the risk to be disclosed by firms. These audit committee variables are yet to be tested in the Nigeria banking sector. This study makes an essential contribution to the governance and risk disclosure literature by examining the risk disclosure practices of eight banks operating in Africa's emerging economies, especially Nigeria, over a period of 9 years (from 2010 to 2018). Concerning the real-world implications of our research, we attempt to evaluate the risk disclosure behavior involving the listed banks in Nigeria and also ascertain the effect of audit committee characteristics on corporate risk disclosure. It appears to be valuable to policy-makers, regulators, preparers, and users of corporate reporting. The study raises the spirits of regulators (CBN, NNDC, NSE, etc.) to promote corporate risk disclosure transparency by ensuring strict compliance with effective corporate governance through auditing committee mechanisms. The paper is organized as follows: The first section is introduction; relevant literature and hypotheses are developed in Sect. 28.2. Sample, data and measurement of the variables are described in Sect. 28.3. Results are discussed in the fourth section. Conclusion, limitation, and suggestion for future research are provided in Sect. 28.5.

28.2 Literature Review

28.2.1 Risk and Risk Disclosure

The extent of growth experienced by the business environments in the last couple of decades has exposed many firms and banks to risk. The major factors attributed to business growth are globalization and technological advancement (Adamu, 2021). Banks are exposed to both systematic and unsystematic risk. The increasing number of corporate failures, which were usually connected with management malpractice, and the 2008 global financial crisis have shaken the investors and other stakeholders' confidence, and therefore, the advocacy to disclose business risk has emerged (Adamu, 2021). This action could help the users of the annual report read and

understand the nature of risk the business is exposed to. The earlier perceptions of many stakeholders about the risk were linked to the occurrence of a bad event (Linsley et al., 2006). However, this perception was considered as the pre-modern idea of risk as to the company's present, and prospects were incorporated in the modern idea of risk (Adamu & Ivashkovskaya, 2021). Risk disclosure is considered adequate, "if the reader is informed of any opportunity or prospect, or of any hazard, danger, harm, threat or exposure, that has already impacted upon the company or may impact upon the company in the future or of the management of any such opportunity, prospect, hazard, harm, threat or exposure (Linsley et al., 2006)." The disclosure of these kinds of information will give the readers more insight into the risk profile of the firm, and the strategy would be adapted by corporate managers in risk management. Despite several motivations for corporate risk disclosure, nevertheless, many corporate managers are reluctant to reveal their risk information. This is not unconnected with the adverse effect associated with corporate risk disclosure. It appears that many countries across the globe do not regulate the disclosure of risk information in the annual report. Consequently, there is no uniformity and clarity in the manner in which firms communicate their risk information (Lajili et al., 2012).

However, most of the previous research developed the risk disclosure index based on the framework proposed by ICAEW in 1999. Researchers usually modify the framework to suit the country of the study characteristics (culture, religion, risk, etc.), rules, and regulation. Moreover, the application of content analysis on annual report narratives has become a common methodology adopted by researchers. Despite the element of subjectivity identified in the process of capturing risk information, however, content analysis remains the most appropriate procedure for risk disclosure research. It permits scholars to analyze the strategy which firms adopt to disclose their information. The prior studies appear unsatisfactory in the manner in which the risk information is divulged in many jurisdictions. For example, previous studies (Linsley et al., 2006; Adamu & Ivashkovskaya, 2021) discovered that the frequency of good news always dominated that of bad news. The investors and other stakeholders prefer the disclosure of bad news as it would substantially influence their decision. Also, the previous studies (Adamu, 2013) identify biases on the time horizon on which backward (past) risk information substantially dominates forward-looking (future) risk information.

Furthermore, the relevance of the information could be very high, especially where stakeholders access the quantitative (monetary) risk information. Nonetheless, the previous studies conducted by Lajili (2009) and Lajili et al. (2012) have found that most of the disclosure is qualitative (non-monetary) rather than qualitative. The dominance of bad news, non-monetary, backward-looking risk information is the major factor that scholars render current risk disclosure practice as not satisfactory.

28.2.2 The Nigerian Stocks Exchange

The Nigerian Stock Exchange (NSE) was created on September 15, 1960, as the Lagos Stock Exchange. Official operations began on August 25, 1961, with the listing of 19 stocks for trading. August 1961 volume was approximately 80,500 pounds, and it increased to approximately 250,000 pounds in September of the same year, with the majority of investments in government securities. In December 1977, it was renamed the NSE, with branches created in several of the country's major commercial centers. Since April 27, 1999, the NSE has operated an automated trading system (ATS), in which dealers trade over a computer network. The NSE unveiled its next-generation trading platform, X-Gen, in 2013, with the goal of enabling electronic trading for both retail and institutional investors. Monday through Friday, the exchange's trading hours are 9.30 a.m. to 2.30 p.m. The Nigerian Securities and Exchange Commission (SEC) regulates the NSE. The SEC and The Federal Ministry of Finance are the primary regulatory bodies for the Nigeria's capital market. Although the NSE is privately owned and self-regulating, the SEC monitors it with the objective of maintaining orderly and equitable securities transactions and safeguarding the market against insider trading abuses. As of November 2019, it featured 161 businesses, including 8 domestic companies on the premium board, 144 on the main board, and 4 on the Alternative Securities Market (ASeM) board. The NSE currently lists 84 FGN bonds, 21 state bonds, 27 corporate bonds, 1 supranational bond, and 53 memorandum listings in the fixed-income market.

28.2.3 Auditing and Audit Committee Regulations in Nigeria

The Company and Allied Matters Act (CAMA), 2004, is the fundamental regulatory framework in Nigeria for company operations. Additionally, it is the primary piece of legislation overseeing financial reporting for publicly traded corporations. Part X1-Financial Statements and Audit contains the fundamental requirement for business financial reporting. The Sections 331–356 of CAMA 2004 deal with financial statements, while parts 357–369 deal with audits. Along with the CAMA, corporate reporting must adhere to additional rules, such as the local statement of accounting standards (SAS) and the International Accounting Standard (IAS). The accounting standards are largely concerned with ensuring financial reporting uniformity and comparability. Prior to the proclamation of CAMA 1990, which has become a statute under the civilian rule in Nigeria, conformity with accounting standards was persuasive. However, with the passage of CAMA 1990, financial disclosure by businesses has become a primary necessity. The Financial Reporting Council of Nigeria (formerly NASB) is also actively engaged in attempts to improve and promote financial disclosure. The Nigeria Accounting Standard Board (NASB) was founded in 1982 with the authority to define and issue accounting standards that must be followed while compiling financial accounts. Nigeria adopted International Financial Reporting Standards (IFRS) on January 1, 2012 and renamed its national

standards-setting organization the Financial Reporting Council of Nigeria from the Nigerian Accounting Standards Board. The motivation for adopting IFRS was to improve financial reporting quality by providing information relevant to varied stakeholders' decision-making. Corporate governance standards enforced by authorities in Nigeria have also aided in the improvement of the corporate reporting environment. This is specified under section 359 of the CAMA.

Additionally, the Nigerian Securities and Exchange Commission (SEC) issued a code of best corporate governance practices in 2003, and Section 11 (a) of that code requires public corporations in Nigeria to create an audit committee. Additionally, it requires that the audit committee's members be primarily non-executive directors. Section 12 (a) of the SEC code of 2003 prohibits the appointment of more than one executive director to the audit committee (Gabriel, 2012). Moreover, following the 2005 financial consolidation, the Nigerian central bank (CBN) issued a post-consolidation code of best practices that became active in April 2006. Section 5.3.12 requires all banks to establish an audit committee as a standing committee of their board of directors. It is crucial to note that Section 8.1.4 of this code requires the establishment of an audit committee composed of non-executive members and representatives of ordinary shareholders elected at the annual general meeting. Nonetheless, this code is silent on the committee's maximum membership size. It is valuable to note that the banking industry plays a critical role in the overall economic development of a country, which is why the authorities concerned have implemented numerous rules to ensure its transparency.

28.2.4 Theoretical Background

Agency and institutional theories are among the essential theoretical lenses by which corporate risk disclosure can be examined (Lajili et al., 2020). The company law has directed the principal (shareholders and other stakeholders) of the publicly listed companies to appoint the agents (corporate managers) to run the day-to-day affairs of the business. This directive signifies the separation of ownership from control. The relationship between owners and their agents has been extensively explained by agency theory. The conflict of interest is inevitable in almost every corporate setting as each stakeholder group is trying to protect its interest. Managers might promote unnecessary agency costs by concealing valuable information from investors and other stakeholders. Therefore, corporate managers are often encouraged to divulge the pertinent risk information as it tends to lower the potential agency cost associated with information asymmetry. It also serves as a monitoring mechanism that helps align all the stakeholders with managerial incentives which could exploit additional firm value as well as decrease the cost of capital (Lajili et al., 2020).

Moreover, institutional theory and sociopolitical research may perhaps explain risk disclosure variations through national borders, legal as well as institutional contexts (Lajili et al., 2020). The social pressures to comply with the standard and search for instituting and/or preserving legitimacy can be explained by institutional theory as this theoretical approach emphasizes to explain factors attributed to

organizational behaviors (e.g., risk disclosure practice). For instance, the CBN directives that mandated all listed banks in Nigeria to maintain a uniform calendar (31st December) for the preparation of their financial statements as well as the International Financial Reporting Standards (IFRS) adoption effective from the year 2012 represents a fascinating institutional change context. Before the observance of the common calendar among the listed banks, the CBN uncovered some irregularities whereby the reporting bank could borrow money from non-reporting banks to cover up certain loopholes. The adoption of IFRS and uniform calendars has substantially improved stakeholders' confidence. In this study, we explicitly consider the risk disclosure trend after IFRS was adopted by banks.

28.2.5 Prior Empirical Studies

The lack of specific regulations that mandated firms to disclose their risk profile motivated scholars to search the major factors that influence firms to reveal their risk information. For instance, company-specific characteristics and corporate governance attributes were the major factors that determine the extent of corporate risk disclosure. Moreover, the audit committee is one of the important corporate governance mechanisms that are responsible to ensure a sound internal control system and risk management in the firm. The nature of their duties has motivated scholars to test the audit committee composition variables as one of the factors that explained corporate risk disclosure. For example, the study conducted by Vandemaele et al. (2009) sampled 46 films listed on Euronext for the year 2006 and assesses the influence of risk committee/manager on corporate risk disclosure. Based on the information included in the disclosure index developed, the content analysis and regression analysis discovered that the presence of risk committee/manager is not statistically significant and therefore does not influence the extent of risk disclosure. In a similar study, Al-maghzom et al. (2016) sampled 12 listed banks in Saudi Arabia and examined the effect of audit committee structure on risk disclosure. They employed content analysis on 60 annual reports for the years 2009–2013. The regression results reveal a positive significant audit committee meetings and corporate risk disclosure, whereas independent directors in the audit committee and the size of the audit committee are not statistically significant.

Moreover, a study conducted by Ishtiaq et al. (2017) analyzes the impact of audit committee variables on corporate risk disclosure in Pakistan. The study samples 85 annual reports for the year 2011–2016 and performs content analysis on risk disclosure. The GLS regression results discovered that the audit committee meeting is positively statistically significant in driving risk disclosure upward. Furthermore, a similar study conducted by Seta and Setyaningrum (2018) assesses the role played by the risk committee on corporate risk disclosure. They sample 365 annual reports of the firms listed in Indonesia for the year 2015. The result identifies that the presence of a risk committee has a positive significant effect on the extent of risk divulged by firms. In South Africa, Viljoen et al. (2019) sampled 40 annual reports

of the top companies listed in JSE for the year 2011 and examined the influence of audit committee characteristics on risk information disclosure. It is discovered that the presence of risk officers and the frequency of audit committee meetings have a positive effect, while the independent director and his experience in the audit committee as well as size are not statistically significant in commanding the amount of risk information to reveal by firms.

28.3 Development of Hypothesis

28.3.1 Audit Committee Size

The audit committee is one of the corporate governance mechanisms that are typically used to ensure the existence of a concrete internal control system in the firm. The manner in which the committee is constituted appears to be one of the recent risk disclosure research questions. The earlier studies (Forker, 1992) have argued that the firm can use the audit committee as a monitoring mechanism; thus, the potential agency cost could be minimized by improving the corporate disclosure quality. The presence, size, and composition of the audit committee are highly relevant to the amount of information to be divulged by firms. The literature has identified the size of the audit committee as one of the contributing factors of corporate disclosure practice. For example, the findings of the study conducted by Achmad et al. (2017) have revealed a positive association between the audit committee size and corporate risk disclosure. Grounded on this empirical conclusion, the following hypothesis was developed:

H1: There is a positive association between corporate risk disclosure and audit committee size.

28.3.2 Independent Director in the Audit Committee

The code of corporate governance has identified the audit committee as one of the monitoring mechanisms that could improve corporate transparency and lessen the potential agency cost (Forker, 1992). Firms have to assign an audit committee to gain an effective internal control system and governance (Al-maghzom et al., 2016), and the existence of that committee tends to substantially influence the firm’s disclosure behavior (Ho & Wong, 2001). The members of the committee have to delegate the board and also have a duty to protect shareholders’ interests. Investors and other stakeholders could experience further corporate transparency provided the major audit committee members are independent directors as they have the power to moderate the quantity of information withheld. The audit committee tends to be

autonomous, provided the independent directors are included in the committee. According to the argument suggested by Agency theory, the independence of the audit committee from the top management has greater implication in reducing information asymmetry problems because the committee has to consider investors' interest in the process of discharging their responsibilities (Al-maghzom et al., 2016). However, the previous empirical studies provided a mixed finding on the position of independent directors in driving corporate disclosures. For example, the findings (Oliveira et al., 2011) have shown a positive association between risk disclosure and audit committee independence. In contrast, Viljoen et al. (2019) discovered an insignificant relationship. However, consistent with agency theory, the hypothesis is formulated as follows:

H2: There is a positive association between an independent director in the audit committee and corporate risk disclosure.

28.3.3 Independent Chairperson in the Audit Committee

Firms have to assign an audit committee to gain an effective internal control system and governance (Al-maghzom et al., 2016), and the existence of that committee tends to substantially influence the firms' disclosure behavior (Ho & Wong, 2001). The members of the committee are delegated by the board and responsible to work on their behalf and also have a duty to protect shareholders' interests. Investors and other stakeholders could experience further corporate transparency provided the major audit committee members are nonexecutives as they have the power to moderate the quantity of information withheld (Ho & Wong, 2001). According to the argument suggested by Agency theory, the independence of the audit committee from the top management has greater implications in plummeting information asymmetry problems because the committee has to consider investors interested in the process of discharging their responsibilities. The audit committee's crucial duty is to ensure the presence of effective internal control, risk management, and the truthfulness of the information disclosed in the financial statement (Al-maghzom et al., 2016). However, the previous empirical studies on audit committee independence and corporate disclosure have reported mixed findings. For example, the findings (Oliveira et al., 2011) have shown a positive association between risk disclosure and independent chairperson in the audit committee. Hence, the hypothesis is formulated as follows:

H3: The presence of an independent chairperson in the audit committee influences the banks to reveal greater risk information.

28.3.4 Nonexecutive Member in the Audit Committee

The extent of corporate disclosure is substantially influenced by the audit committee's presence (Ho & Wong, 2001). However, the manner in which the committee is constituted is also very important because if the firm appointed higher nonexecutive members in the audit committee, they will use their influence to moderate the withheld information due to improve corporate transparency (Ho & Wong, 2001). Furthermore, scholars (Al-maghzom et al., 2016) motivated the firms to include a higher number of directors in the audit committee composition due to boost in their disclosure policy; this practice could reduce the potential information asymmetry of information problems. The committee of nonexecutive directors is term to be independent. However, the previous empirical studies on audit committee independence and corporate disclosure have reported mixed findings. For example, the findings (Oliveira et al., 2011) have shown a positive association between risk disclosure and audit committee independence. Hence, the hypothesis is formulated as follows:

H4: There is a positive association between a nonexecutive member in the audit committee and the quantity of risk disclosure.

28.3.5 Audit Committee Meetings

It is generally believed that the major corporate strategic decisions are taken at the board room meeting. In compliance with the provision of corporate governance that required the board to constitute an audit committee mainly to establish a sound internal control system and risk management strategy, the inclusion of nonexecutive members is motivated in the audit committee composition as their presence could moderate the influence of the management in the meetings. The literature delivers experiential evidence that the directors exercise their monitoring activities by influencing the extent of corporate disclosure based on the number of meetings held by the committee (Allegrini & Greco, 2013). The importance of regular meetings cannot be overemphasized as Cheng and Courtenay (2006) asserted that firms could minimize fraud risk by conducting regular meetings. We test the hypothesis that the board and the audit committee's diligence in delivering monitoring activity positively affect the level of information voluntarily disclosed. The prior studies (Al-maghzom et al., 2016) have reported positive linearity between corporate disclosure and the frequency of audit committee meetings. So, the hypothesis is coined as follows:

H5: There is a positive association between the risk disclosure and the number of audit committee meetings.

Table 28.1 Sample

Criteria	N
Total number of listed banks	15
Number of banks without complete data	7
Final sample	8

28.4 Methodology

28.4.1 Sample and Data

The study selected all the banks listed on the Nigerian Stock Exchange as our sample. However, any bank that has no relevant data for variables of interest (audit committee data) from 2014 to 2018 was excluded from the sample. Table 28.1 provides the total number of the study sample. Nonetheless, the data on Risk Disclosure (RD) which serves as our dependent variable was collected from the annual reports of the sample banks that were downloaded from their respective websites. We explore all the narratives sections including notes to the accounts to collect RD data. Moreover, the data peculiar with independent and control variables were collected from the Bloomberg database. To meet the research objectives, we employed content analysis and the descriptive statistics to analyze the risk disclosure behavior among the listed banks in Nigeria. Furthermore, we employ a multivariate regression analysis to examine the effect of the explanatory factors on the explained variable. This analysis would enable us to understand the direction of the relationship among our variables and also to measure the extent of their connection or otherwise.

28.4.2 Content Analysis

Content analysis is the major analytical tool employed by prior risk disclosure studies. The procedure involves the analysis of annual reports narratives such as management discussion and analysis, chairman statements, directors' review, etc. This study uses the analysis instrument (checklist) that was adopted for previous studies (Rajab & Handley-Schachler, 2009; Linsley et al., 2006) to explore and code the extent of risk disclosure reported in the listed banks' annual report. Table 28.1 of the appendix shows the checklist with little modification. The main target is to identify and count the number of risks disclosed based on a variable measurement a researcher considers more appropriate. The use of words and sentences are the two common measurement approaches adopted by risk disclosure researches. Each of these approaches has its advantages and drawbacks. In the word approach, a researcher can count the number of risk-related words with reasonable accuracy; however, the coder cannot classify the risk into diverse risk disclosure categories. In

contrast, the sentence approach as a measurement tool has the advantage of coding the risk information into a diverse risk disclosure category.

However, we cannot code the whole risk sentence with reasonable certainty compared to the word approach. Despite the existing argument, this study is consistent with previous studies (Rajab & Handley-Schachler, 2009; Linsley et al., 2006) and selected the sentence approach because the procedure will enable us to analyze the risk into a diverse category. We adopted the style in which prior study (Rajab & Handley-Schachler, 2009) classifies the risk disclosure into four different categories. The first category classifies the risk disclosure into strategic, operational, and environmental risk disclosure. The second category classifies risk disclosure into future (forward-looking) information and past (backward-looking) information. The third category classifies risk disclosure into qualitative (monetary) and non-qualitative (nonmonetary). The fourth category classifies risk disclosure into good news, bad news, and neutral information. Moreover, to minimize the sentence approach drawbacks and subjectivity element inherited in the content analysis, we adopted the decision rule developed by prior studies. Thus:

- To identify the risk-related disclosure, the definition that considers good, bad, and uncertainty has to be considered "if the reader is informed of any opportunity or prospect, or of any hazard, danger, harm, threat or exposure, that has already impacted upon the company or may impact upon the company in the future or of the management of any such opportunity, prospect, hazard, harm, threat or exposure (Linsley et al., 2006)."
- The statement cannot be implied but rather must be unambiguously specified.
- Table 28.1 of the appendix will be maintained as a term of reference for identification and classification of risk disclosures.
- Sentences related to general policy statements vis-à-vis corporate governance, statements of risk management policy, risk management systems, internal control, employee health and safety, and general policy about financial risk management shall be categorized as nonmonetary/neutral/non-time.
- The sentence is considered monetary risk disclosures if the statement either acknowledges the precise financial impact of a risk or they have provided the information that is enough for the readers to compute the financial implication of the risk involved.
- If the statement has two or more likely classifications, the disclosure is suggested to be coded in the category that is best emphasized in the sentence.
- Tables (qualitative and quantitative) that report risk-related information should be construed as each line equals one sentence and be categorized accordingly.
- Any risk disclosure statement that is repeated shall be considered as a new risk sentence whenever it is discussed. Besides, the disclosure shall not be coded as risk disclosure provided it is too ambiguous in its reference to risk.

Table 28.2 Variable description and measurement

Variable	Variable definition	Measurement of the variable
RD	Risk disclosure	Number of risk sentences
SAC	Size of the audit committee (AC)	Number of people in the AC
IDAC	Independent director in the AC	Number of independent member in the AC
ICPAC	Independent chairperson in the AC	1 if the audit committee has an independent chairperson and 0 otherwise
NEDAC	Nonexecutive in audit committee	Number of independent member in the AC
ACM	Audit committee meetings	Number of audit committee meetings

28.4.3 Measurement of Variables

Table 28.2 presents the study variables, definitions, and the procedure by which we measure our dependent and independent variables. This could permit us to run the regression and test the hypotheses developed in the previous section.

In developing the study model, the total risk disclosure (RD) is our explained variable, while the size of the audit committee (SAC), an independent member in the audit committee (IDAC), presence of an independent chairperson in the audit committee (ICPAC), the nonexecutive member in the audit committee (NEDAC), and the audit committee meeting (ACM) are the five explanatory factors included in the model. This will permit us to know to what extent the covariates explain the model developed. The following is our regression equation:

$$\begin{aligned} \mathrm{RD} = \beta_{0it} + \beta_{1it}\,(\mathrm{SAC}) + (\mathrm{IDAC}) + \beta_{3it}(\mathrm{ICPAC}) + \beta_{4it}(\mathrm{NEDAC}) \\ + \beta_{5it}(\mathrm{ACM}) + \varepsilon_{it} \end{aligned}$$

28.5 Result and Discussion

This sector presents and discusses the descriptive statistics, diagnosis test, as well as regression result. The results of the content analysis are presented based on the procedures described in the methodology. The summary statistics provide the number of observations used in the study, the mean, standard deviation, and minimum and maximum number of risks disclosed by banks from the entire category described in the checklist (appendix 1). Table 28.3 shows the summary statistics of the different categories of the risk disclosed by banks. The mean, standard deviation, and minimum and maximum number of total risk disclosure are 2290.47, 640.08, 852, and 3499, respectively. To have broad insight into risk disclosure behavior

Table 28.3 Descriptive statistics

Variable	Obs.	Mean	Std. dev.	Min	Max
Risk disclosure	72	2290.47	640.08	852	3499
Environmental risk	72	787.72	297.89	177	1498
Operational risk	72	1010.21	370.58	318	1860
Strategic risk	72	496.74	203.52	110	998
Quantitative risk info	72	388.90	19,813	140	975
Qualitative risk info	72	1905.76	628.41	639	3201
Good news	72	838.28	238.07	340	1380
Bad news	72	268.29	101.69	69	467
Neutral news	72	1188.03	358.07	434	1902
Future risk information	72	403.47	106.28	170	671
Past risk information	72	910.49	352.74	269	1766
Non-time risk information	72	980.78	263.01	384	1456

involving the listed banks in Nigeria, the disclosure is categorized into four diverse groups.

The first group classifies risk disclosure into environmental, operational, and strategic. The average risk disclosure under operational risk disclosure (1010.21) substantially dominates both environmental (787.72) and strategic (496.74) risk information. Despite the IFRS 7 and other macroeconomics problems being required to be coded under environmental risk, however, their frequency is less relative to operational risk disclosure. The above results were highly anticipated as the general statement about the internal control system, corporate governance, and risk definition, were all required by the checklist to report them in the operational risk disclosure category. This finding is consistent with prior studies (Rajab & Handley-Schachler, 2009; Lajili et al., 2012) that reported operational risk disclosure as the most regular risk information divulged by firms.

Meanwhile, the second group analyzes risk disclosure into quantitative (monetary) and qualitative risk information. The result reported in Table 28.3 shows that the monetary-related risk information accounted for about 388.90 disclosures, while 1905 disclosures are attributed to nonmonetary risk information. The nature of this disclosure practice has impaired the relevance of risk disclosure for the informed decision as many stakeholders such as analysts consider quantitative risk information more appropriate in the stock valuation as well as earning forecast. Our finding provides support for the earlier empirical studies (Adamu, 2013) that discovered monetary risk information is rarely unveiled.

Moreover, the checklist analyzed the risk disclosure into good news, bad news, and neutral risk information. This analysis will give the readers to understand the status of their investment. Table 28.3 shows that about 838.28, 268.29, and 1188.03 are associated with good news, bad news, and neutral risk information, respectively. It appears that the corporate managers are keen to divulge more good news perhaps due to impressing their shareholders. The new approach to risk has recognized the occurrences of good events as a risk. This would give the investors and other

stakeholders to evaluate the business prospect that could create additional value to the firm. Nevertheless, many stakeholders remain too conservative for their preference to see bad news that linked risk to the occurrences of bad events. Nonetheless, the higher appearances of neutral information and good news have raised the question about the quality of risk disclosure practice among the banks in Nigeria. This finding is consistent with previous studies (Adamu, 2013) that discovered bad news is less frequently divulged.

Furthermore, group four of the checklist considered the time horizon on which the risk information is disclosed. This could permit us to know if the risk-related information is past information (backward-looking), future information (forward-looking), or has no specific time (non-time) to relate the disclosure. Table 28.3 shows about 403.47 future risk information, 910.49 backward-looking information, and 980.78 non-time risk information. The dominance of non-time and past risk information is highly alarming about the quality of risk information disclosure. The forward-looking information is more pertinent to investors and other stakeholders because they might estimate and accumulate the magnitude of the risks in their decision-making process. Even so, the greater appearances of non-time and past in our result are consistent with prior studies' findings (Adamu, 2013).

28.5.1 Pearson's Correlation

Table 28.4 presents Pearson's correlations results that will help us have an intuition about the linearity of our otherwise among our study variables. To know the significant factors, the correlations were computed at the 5% level of significance.

The result found that total risk disclosure is associated with audit committee size, independent director, and the independent audit committee. These correlation results (independent director, nonexecutive director, and the independent audit committee) are similar to our regression outcome, except for audit committee size and audit committee meetings. In our regression, the audit committee size was not significant, while an audit committee meeting was statistically significant.

Meanwhile, for the OLS to be more appropriate, we used the correlation results depicted in Table 28.4 results due to knowing the relationship position of our

Table 28.4 Pairwise correlations

Variables	RD	SAC	IDAC	ICPAC	NEDAC	ACM
RD	1.000					
SAC	−0.267*	1.000				
IDAC	0352*	0.139	1.000			
ICPAC	0.520*	−0.020	0.599*	1.000		
NEDAC	−0.071	0.533*	0.527*	0.435*	1.000	
ACM	0.106	−0.098	0.326*	0.031	0.085	1.000

*Shows significance at the 0.05 level

independent variables. This would enable us to understand if the multicollinearity assumption was satisfied. The results show that the size of an audit committee is significant and positively associated with the nonexecutive directors in the audit committee (0.533). However, the coefficient of the independent audit committee (0.599), a nonexecutive director in the audit committee (0.527), and audit committee meetings (0.326) are significant and positively related to independent directors in the audit committee. Nonexecutive director in the audit committee (0.435) reveals the significant coefficient and positively connected with independent audit committee chairperson. Nevertheless, it is obvious that all the linearity vis-à-vis our explanatory factors are extensively underneath the threshold of 0.80. Consequently, the model is free from potential multicollinearity problems.

Likewise, to authenticate this particular finding, we compute the variance inflation factor (VIF) for the robustness of the multicollinearity assumption. The VIF results have authenticated our pairwise correlation results which suggest the nonexistence of multicollinearity in the model. This can be justified by the values demonstrated by all the explanatory factors as none of them reached the threshold of 10.

28.5.2 Heteroskedasticity

We computed the Breusch-Pagan LM test to ascertain if the variance of our error term is homoscedastic or otherwise. The outcome reveals 2.94 and 0.0866 for the chi-square and p-value, respectively. The higher p-value above 5% is an indication that our error term is homoscedastic. However, to solidify our result, we perform the White test for homoscedasticity of the error term. The result was statistically significant at the 5% level of significance because the chi-square and p-value reveal 30.76 and 0.0429, respectively. Consequently, we used the white standard error to address the heteroskedasticity problem in our model.

28.5.3 Regression Result

The study applied OLS regression analysis to examine the effect of the audit committee on the total risk disclosure. The regression outcome is presented in Table 28.5 after the total risk disclosure (dependent variable) was regressed against five explanatory factors of the audit committee. These factors include the size of the audit committee, the number of independent directors in the audit committee composition, the presence of an independent chairperson in the audit committee, the nonexecutive member in the audit committee, and the number of meetings held by the audit committee. The overall *P*-value (0.000) of the model is statistically significant at a 1% level of significance. Moreover, the value of F-statistics is 9.516, while the R-squared figure is 0.502. Grounded on the R-square value, the explanatory factors incorporated in the model have explained the variation of total

Table 28.5 Variance inflation factor

Variables	VIF	1/VIF
NEDAC	1.831	.546
IDAC	1.792	.558
ICPAC	1.603	.624
SAC	1.29	.775
ACM	1.191	.84
Mean VIF	1.541	.

Table 28.6 Regression result

RD	Coefficient	Std. error	*t*-value	*p*-value	Sig
SAC	−74.705	87.966	−0.85	0.402	
IDAC	260.529	128.241	2.03	0.051	*
ICPAC	605.776	276.262	2.19	0.036	**
NEDAC	−150.950	129.413	−1.17	0.253	
ACM	164.840	71.893	2.29	0.029	**
Constant	1805.287	474.15	3.81	0.001	***

***$P < 0.01$, **$p < 0.05$, *$p < 0.1$

risk disclosure by 50.2%. Meanwhile, the number of independent members reveals a positive coefficient which is statistically significant at the 10% level of significance. This signifies that greater independent members in the audit committee will influence the firm to disclose the higher level of risk information. This assertion provides considerable support for the H1 that predicts that RD is influenced by the independent member in the audit committee. The finding is in line with the previous studies (Oliveira et al., 2011).

Moreover, the existence of an audit committee chairperson is very important because there is a tendency for the committee to discharge their duties effectively. The audit committee appears to be autonomous, provided there is a person who is responsible to chair and preside over the committee meetings. If the committee is responsible for corporate risk management, it means that the chairperson is considered a risk committee chairperson. The result presented in Table 28.6 shows the existence of a relationship between audit committee chairperson and corporate risk disclosure. The results reveal a positive coefficient which is statistically significant at the 5% level of significance. This result provides strong statistical evidence to support H2. Our finding is also consistent with prior empirical studies by Viljoen et al. (2019). Meanwhile, the number of the audit committee meeting is very essential as the crucial issues are presented for the critical deliberations in the committee meetings. One of the rationales behind the setting up of the audit committee is to ensure the existence of a solid internal control system and effective risk management procedures in the organization.

The regression results presented in Table 28.6 have indicated the positive linkage between the number of audit committee meetings and the extent of risk divulged by banks. This can be justified by the positive coefficient which is statistically significant at a 5% level of significance. Hence, the predicted H5 is accepted. This finding is consistent with prior studies by Viljoen et al. (2019). Nevertheless, the other

variables (audit committee size and nonexecutive member) included in the model are not statistically significant. The results reported in Table 28.6 have revealed an insignificant coefficient for the audit committee size. This is a strong indication that constituting too many people in the audit committee would not improve the quality or quantity of the risk information the banks decided to unveil. This led us to reject the H1 which postulated the positive linearity between total risk disclosure and audit committee size. This result authenticates the prior studies' findings (Al-maghzom et al., 2016).

Likewise, the coefficient of the nonexecutive director reported in Table 28.6 appears insignificant. Despite the role of nonexecutive director suggested by the code of corporate governance in many countries, nevertheless, it was found to have less influence in the audit committee, especially on the amount of risk to divulge by banks. It appears there is no statistical evidence to support the H4, thus rejected.

28.6 Conclusion

The study examines the influence of audit committee structure on corporate risk disclosure in the Nigerian banking sector. The independent member in the audit committee, the presence of an independent audit committee chairperson, and the frequency of audit committee meetings are the important factors that influence banks to disclose greater risk information. However, audit committee size and the presence of nonexecutive members in the audit committee are not among the factors that determine the extent of risk to divulge by banks. Also, the study provides evidence that the banks are willing to disclose risk-related information. The frequency of operational risk disclosure is higher than that of environmental and strategic risk information categories. Nonetheless, most of the risk informtion reported were qualitative, neutral, and non-time. It is important to note that investors and other stakeholders often prefer greater disclosure on monetary, bad news, and forward-looking information; nevertheless, they are less frequently disclosed by banks. The higher disclosures of backward-looking information, good news, nonmonetary information, risk definitions, and the general statements have decreased the relevance of the risk information disclosed to the users of annual reports. The present practice is not adequate to meet the demand of many stakeholders especially in their decision-making process. Moreover, there is a lack of uniformity in the styles employed by banks to disclose their risk. This is not unconnected with the unavailability of a comprehensive framework about how risk will be disclosed from the regulators, as the disclosure of this nature is still voluntary in Nigeria. However, the risk disclosure is annually advancing; hence there is a tendency that the quality of risk disclosure could increase in the near future especially if the audit committee remains active in discharging their duties judiciously. The banks that institute their audit committee with many independent members, an independent chairperson, and adopt the spirit of meeting consistently tend to improve the quality and quantity of their risk confession. These study findings have implications for

investors, regulators, banks, and other stakeholders in the emerging economy. Consistent with prior studies, the risk disclosure coding process is one of the major limitations identified in this study. The subjectivity element in coding risk disclosure sentences in the annual narratives is unavoidable. However, the decision criteria we adopted from Linsley et al., (2006) has reduced the element of risk sentence coding bias. The second limitation is the lack of data concerning variables of interest in the Bloomberg data stream; this problem has mandated us to reduce our sample size. Nonetheless, future studies are advised to explore other databases if data is available.

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