THE EFFECT OF AUDIT COMMITTEE, RISK MANAGEMENT COMMITTEE AND BLOCK HOLDER OWNERSHIP ON IFRS 7-FINANCIAL INSTRUMENTS DISCLOSURE COMPLIANCE OF FINANCIAL INSTITUTIONS IN NIGERIA

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DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
October 2016

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By

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Thesis Submitted to
Tunku Puteri Intan Safinaz School of Accountancy,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy

TUNKU PUTERI INTAN SAFINAZ
SCHOOL OF ACCOUNTANCY
COLLEGE OF BUSINESS
Universiti Utara Malaysia

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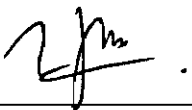
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THE EFFECT OF AUDIT COMMITTEE, RISK
MANAGEMENT COMMITTEE AND BLOCK HOLDER
OWNERSHIP ON IFRS 7 – FINANCIAL INSTRUMENTS
DISCLOSURE COMPLIANCE BY FINANCIAL
INSTITUTIONS IN NIGERIA
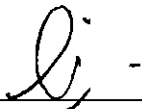
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(Programme of Study)

: **Doctor of Philosophy**

Nama Penyelia/Penyelia-penyelia
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: **Prof. Madya Dr. Hasnah Kamardin**

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ABSTRACT

The main objective of this study is to examine the extent of compliance with International Financial Reporting Standards 7 (IFRS 7) financial instruments disclosure requirements by listed financial institutions in Nigeria. In addition, this study investigates the relationship between corporate governance characteristics and IFRS 7, and also examines the moderating role of blockholder ownership on the relationship between corporate governance characteristics and IFRS 7. Panel data from the annual reports of 50 sampled financial institutions which consist of 20 banks and 30 insurances companies for a period of 3 years (2012-2014) were used in the study. Findings of the study indicate that the compliance with IFRS 7 is at 51% and showed steady improvement. In terms of risk type, the compliance was found to be lower in market and liquidity risk as compared to financial risks. The audit committee size, expertise, independence and meeting frequency are found positively and significantly affect IFRS 7 compliance. Similarly, risk management committee independence shows positive relationship with IFRS 7 compliance. The interaction between blockholder ownership and audit committee independence and risk management committee independence with IFRS 7 compliance shows significant and positive relationship. In this regard, the policy makers in Nigeria should formulate forward looking policies aimed at enhancing the role of independence in the audit and risk management committee to bring about strong internal control activities. They should also strengthen dealings on financial relationship between blockholding investors and minority shareholders to restore the confidence hitherto enjoyed by the Nigerian financial institutions. Findings of the study provide the needed input for policy formulation and decision making in Nigerian financial institutions.

Keywords: IFRS 7 compliance, corporate governance characteristics, audit committee independence, blockholder ownership.

ABSTRAK

Objektif utama kajian ini adalah untuk mengkaji tahap pematuhan International Financial Reporting Standards 7 (IFRS 7) iaitu keperluan pendedahan instrumen kewangan oleh institusi kewangan yang tersenarai di Nigeria. Disamping itu, kajian ini mengkaji hubungan antara ciri-ciri tadbir urus korporat dan IFRS 7, dan juga mengkaji peranan pemilikan pemegang taruh sebagai penyederhana kepada hubungan antara ciri-ciri tadbir urus korporat dan IFRS 7. Data panel diperolehi daripada sampel laporan tahunan yang terdiri daripada 50 institusi kewangan bagi tempoh 3 tahun (2012-2014). Hasil kajian menunjukkan bahawa pematuhan IFRS 7 adalah pada 51% dan menunjukkan peningkatan yang stabil. Dari segi jenis risiko, pematuhan didapati lebih rendah di risiko pasaran dan risiko kecairan. Saiz jawatankuasa audit, kepakaran, kebebasan dan kekerapan mesyuarat didapati memberi kesan yang positif dan ketara kepada pematuhan IFRS 7. Begitu juga dengan kebebasan jawatankuasa pengurusan risiko yang menunjukkan hubungan yang positif dengan pematuhan IFRS 7. Interaksi antara pemilikan pemegang taruh dan kebebasan jawatankuasa audit dan kebebasan jawatankuasa pengurusan risiko dengan pematuhan IFRS 7 menunjukkan hubungan yang signifikan dan positif. Dalam hal ini, pembuat dasar di Nigeria harus merangka polisi pada masa hadapan bagi meningkatkan peranan kebebasan dalam jawatankuasa audit dan pengurusan risiko untuk menghasilkan aktiviti kawalan dalaman yang kukuh. Mereka juga perlu mengukuhkan urusan hubungan kewangan antara pelabur blok dan pemegang saham minoriti untuk memulihkan keyakinan yang sehingga kini dinikmati oleh institusi kewangan Nigeria. Hasil kajian ini memberi input yang diperlukan untuk menggubal dasar dan membuat keputusan dalam institusi kewangan Nigeria.

Kata kunci: pematuhan IFRS 7, ciri-ciri tadbir urus korporat, kebebasan jawatankuasa audit, pemilikan pemegang taruh.

ACKNOWLEDGEMENT

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ACE	Audit committee expertise
ACI	Audit committee independence
ACM	Audit committee meeting frequency
ACS	Audit committee size
BIG 4	Audit quality
BLOC	Block holder ownership
CAC	Corporate Affairs Commission
CG	Corporate Governance
FE	Fixed Effects
FRCA	Financial Reporting Council Act
FSIZE	Firm size
IFRS	International Financial Reporting Standards
INDUS	Industry
LEV	Leverage
OLS	Ordinary Least Squares
PCAOB	Public Company Accounting Oversight Board
PROFIT	Profitability
RE	Random Effects
RMCE	Risk management committee expertise
RMCI	Risk management committee independence
RMCM	Risk management committee meeting frequency
RMCS	Risk management committee size
SEC	Securities and Exchange Commission

CHAPTER ONE

INTRODUCTION

1.1   Background of Study

Financial institutions are the bedrock of economic development of any nation (Levine, 2003; Sunday & David, 2011). These institutions create and allocate finance to needed sectors, manage risks and act as vehicles for information asymmetry reduction (Andres, Romero-Merino, & Santamaría, 2012; Andres & Vallelado, 2008). Financial institutions also act as agents for deposit mobilisation and allocation of finance to productive units in developing economies (Arun & Turner, 2004). In addition, these entities play leading roles in the external governance of non-financial institutions being the largest financial middlemen in developing countries (Caprio & Levine, 2002; Polo, 2007).

Financial institutions as engines of growth for small and medium scale enterprises (SMEs) provide gainful employment and other entrepreneurial development (Gbandi & Amissah, 2014; IASB, 2011). However, as Adesoye and Atanda (2012) observed, the inefficient intermediating role played by these institutions sometimes results in a mismatch between savings, borrowing and investment. This inefficiency results from poor quality of exposure and training on corporate governance and financial reporting standards disclosure by staff and management (Ahmed, Madawaki, & Usman, 2014). According to the International Labour Organisation (ILO), the problems highlighted may result in the withdrawal of savings in Nigerian financial institutions by depositors leading to the closure of businesses and lack of employment (ILO, 2009).

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While financial institutions have played paramount role in long-term investments due to the presence of blockholders (institutional and individual investors) in developed countries, the reverse has been the case in Nigeria (Andres and Vallelado, 2008; Andres et al., 2012; Ojeaga, 2009). The inability of these institutions in Nigeria and elsewhere around the world to perform adequately their duties has been attributed to ineffective corporate governance and non-compliance with accounting standards (Hodgdon, Tondkar, Harless, & Adhikari, 2008, 2009; Sunusi, 2011). Inadequate reporting framework, weak capacity and enforcement and resorting to creative accounting by managers to boost figures in financials are other problems (IMF, 2013; Sunusi, 2012; Sanusi & Izendonmi, 2014; World Bank, 2004, 2011).

The issue of ineffective corporate governance and inadequate disclosure in Nigerian financial institutions has led to earning misstatements and fraud. These problems caused colossal losses in Nigeria of between ₦1.5 trillion- ₦2 trillion (USD$97.4 billion to $130 billion) between 1993 to 1999 (Adeyemo, 2012). In addition, this issue helped lead to the Nigerian stock market crash of 2008, which resulted in a loss of more than USD $3.84 billion (Ikpong, 2008). These problems deprived other sectors of the much needed funds for investments due to high cost of capital (IMF, 2013; World Bank, 2011). Further, Adeyemo (2012) reported that the Nigerian economy lost more than ₦5.4 billion (USD $38.4 million) involving 741 attempted cases of fraud within the banking sector alone in mid-2007. Similarly, Okereke-Onyiuke (2010) reported a loss of USD $3.16 billion due to non-performing loans in Nigerian banks as a result of inadequate corporate governance, transparency and inaccurate disclosure.

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In the same vein, the News Agency of Nigeria (NAN) reported that problems of corporate governance and inadequate disclosures resulted in a losses of N413 billion (USD $21.1billion) due to fraud cases in the banking industry during the period from 2002 to 2011; N18.05 billion (USD$91.6 million) involving 3,380 fraud cases in 2012; N61.79 billion (USD$314.5 million) in 3,756 cases in 2013 and a N5 billion (USD $254.5 million) pension fund fraud involving Oceanic Bank (International) where the case was only settled by a high court in 2014 (Punch News Papers, 2015). These reported cases are no doubt are among the disturbing financial reporting issues that accounting regulators such as IASC and its predecessor IASB and local regulators such as the financial reporting council of Nigeria have been trying to address universally (IASB, 2011; SEC, 2011; FRCN, 2011).

International Financial Reporting Standards (IFRS) was a new accounting regime that all listed entities in Nigeria were required to embrace became effective from January 1, 2012 (Sunusi, 2012). However, given that December 31, 2011 is the transition date, all publicly listed and significant public entities were required to prepare two sets of accounts based on GAAP and IFRS (Bala, 2013). Consequently, banks and insurance companies in Nigeria were among the first to comply with the new reporting rule (Anyahara, 2012; Oduware, 2012).

Studies have revealed that banks and insurance companies in developing countries such as Nigeria have low corporate governance (CG) regulations and a higher concentration of risks (Amoako & Asante, 2012; IMF, 2013), hence leading to the establishment of required principles based regulations such as financial instruments disclosure (IFRS 7) (IASB, 2012). Such principles-based standards are more detailed, more flexible and can

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be applied in a wider range of issues and give no room for manipulation (Zango et al., 2015). As in other developing economies, financial institutions in Nigeria realise that IFRS 7 financial instruments disclosure provides them with adequate guidance to manage their risk exposure (Laeven & Levine, 2009; Adams & Mehran, 2003). This is because IFRS 7 is the only standard that requires a company to disclose the extent and nature of its risk portfolio in both quantitative and qualitative terms (World Bank, 2012). The IFRS principles-based standards according to ISAB are broad in context and flexible in application and can be applied to a wide range of situations thus, making manipulations difficult.

The vast use of financial instruments in financial institutions, especially banking and insurance, helps explicate not only their level of profitability but also their level of risk on the invested capital to investors (Pucci & Tutino, 2013; Tijjani & Ajape, 2013). Radin (2007) and Pasternak (2007) observed that IFRS 7 was the most authoritative standard providing information on risk exposure of company's financial transactions. Latifah, Asfadillah, and Sukmana (2012) observed that IFRS 7 provides aggressive verification opportunities for stakeholder assessment of disclosure.

Several studies have confirmed the need for IFRS 7 disclosure to enhance the quality of information disclosure in financial statements of firms dealing with financial instruments (IASB, 2012, Pasternak, 2011). In fact, these scholars have observed the necessity to regain the confidence of the investing public by reducing irregularities in firms and thus supported the idea that IFRS 7 is mandatory (Alsaqqa & Sawan, 2013; Bischof et al., 2014; Pucci & Tutino, 2013). The need for IFRS 7 compliance also has arisen from the internationalisation of business and the need for a single financial

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reporting across the globe to reduce the expenses incurred in preparing many financial statements for different jurisdictions.

With the development of new standards, the attention of boards of directors, management, shareholders especially block holders and regulatory authorities globally has shifted towards the new accounting and reporting language in IFRS 7 to improve their operation and risk management assessments (Admati & Pfleiderer, 2009; FRCN, 2011; SEC, 2011). To date, researchers have found that IFRS 7 has value relevance (Beretta & Bozzolan, 2004; Wang et al., 2005) and is capable of creating more value for investors (Anyahara, 2012) than the Nigerian code of corporate governance (SEC, 2011), Barako et al. (2006) and Watts & Zimmerman (1990) have posited that compliance with disclosure requirements reduces information asymmetry. They further maintain that compliance led to an increase in capital formation by boosting demand for financial institutions shares in the capital market.

Moreover, financial institutions as risk takers require IFRS 7 in their management and disclosure of risks in quantitative terms (Eccles et al., 2001; World Bank, 2012). However, for effective risk management disclosure, these institutions require an active corporate governance oversight monitoring role that is completely independent of the company's management (Kamardin & Haron, 2011; Rainsbury et al., 2008).

Audit committee characteristics and risk management committee characteristics have now assumed universal necessity for ensuring the integrity of financial reporting and disclosure practices of financial institutions (DeZoort et al., 2002; Chen et al., 2010). These characteristics include the size of audit committee and risk management

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committee (Lin & Hwang, 2010; Mohamad-Nor et al., 2010), the expertise of the audit committee and a risk management committee that positively mitigates agency costs (Carcello & Neal, 2006; Dhaliwal et al., 2006; Dhaliwal et al., 2010). An effective committee efficiently monitors financial reporting disclosure practices associated with agency costs (Watts & Zimmerman, 1986).

Similarly, independent members of the audit committee and risk management committee provide essential attributes of unbiased financial reporting and a higher disclosure quality of the accounting numbers (Klein, 2002; Deli & Gillan, 2000; Bedard & Gendron, 2010). Further, Allegrini and Greco, (2011) and Bedard and Gendron, (2010) have argued that the diligence of each member of the two committees in attending oversight meeting functions can serve as a positive IFRS 7 compliance enhancer.

Block holders are large shareholders in a company whose holdings enable them to influence a company's policy through their appointed representatives on the board (Albright et al., 2014; Ballas et al., 2014). Studies have documented that blockholder ownership significantly increases the monitoring role of board committees and ensures IFRS compliance (Navissi & Naiker, 2006; Noe, 2002; McConnell & Sevaes, 1990). Block holder investors are found to impose the riskiest strategies through the various committees in the governance of companies' financial reporting disclosure practices (Barry et al. 2011; Clay, 2001; Marston & Polei, 2004; Tsai & GU, 2007). In addition, block investors have greater experience in business with superior monitoring capabilities and the financial resources to mitigate agency problems than ordinary shareholders have (Chahine & Tohme, 2009; Chahine, 2007).

The present study holds the same view with regulators that a suitable combination of corporate governance (CG) characteristics and highly committed professionally inclined independent directors as investors and stakeholder representatives can augment IFRS compliance (Levitt, 1998). Furthermore, a good choice of the board of directors who are members of various committees by the largest shareholders in financial institutions will continue to play a major role of deposit mobilisation (Baghat et al., 1998; Olaseni & Alade, 2012). By having large shareholders, banks and insurance companies will continue to act as financial "middlemen" and "solitary agents" for acquiring claims and assuming liabilities (Sunusi, 2012).

Therefore, the objective of this study is to explore the moderating effect of block holder ownership on the relationship between audit committee characteristics, risk management committee characteristics and IFRS 7 compliance of listed financial institutions in Nigeria.

1.2   Problem Statement

There are no doubts that in fact Nigeria is one of the least developed countries in the world as the majority of its citizens are poor (Olukotun, James, & Olorunfemi, 2013). The country faces problems impeding its economic growth and development that include unemployment, corruption and a weak financial sector due to lack of IFRS compliance and inadequate governance regulations (Agamah, 2013; IMF, 2013; Isenmila & Elijah, 2012). According to International Labour Organisation (ILO, 2009), the financial crisis that threw millions of hitherto gainfully employed people across several nations out of jobs was a result of non-compliance with accounting standards

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and good governance regulations by the affected financial institutions. The report by the ILO is similar with findings of researchers (Demaki, 2011; Sunusi, 2010).

According to the International Finance Corporation (IFC) the financial crisis in Nigeria was due to lack of good governance regulations (IFC, 2010). This deficiency was also the same reason that led to the 2008 universal economic loss of a whopping USD$2.8 trillion (£ 1.8 trillion) across the world. This was due to crushing trade and failure of the financial institutions to honour contractual obligations in the United States, the United Kingdom and even developing economies including Nigeria (Atkinson et al., 2013).

The problems with Nigerian financial institutions during the 2008-2009 crash was almost the same as those elsewhere across the globe. Studies have indicated that Nigerian financial institutions were not spared from crisis and that 22 of the 24 listed banks were found engaging in unauthorised business practices (Sunusi, 2012, 2011, and 2010). These unwholesome practices in form of creative accounting gave rise to non-performing loans in the banking industry to the tune of USD$3.16 billion (Okereke-Onyiuke, 2010). The worst affected by this crisis were the Managing Directors/CEOs of Oceanic Bank (International), Intercontinental Bank, Fin Bank, Union Bank and Afribank (Sunusi, 2010). The crisis led to the sacking of the entire management of these five banks and the injection of a whopping ₦1 trillion (USD$65billion) of taxpayers' money into these banks by the Central Bank of Nigeria (CBN). This was done in order to restore the confidence of investors and other depositors (IMF, 2013; Olukotun, James, & Olorunfemi, 2013).

In a similar fashion, Sunusi (2010) and Imeokparia (2013) attributed the crisis in Nigerian financial institutions to poor corporate governance, poor asset quality and inaccurate/inadequate financial report disclosure and non-compliance with regulatory requirements. For instance, the result of ineffective corporate governance and inadequate financial reporting disclosure was estimated to be a capital market loss in the Nigerian capital market of the sum of USD$3.84 billion in 2008 alone (Sunusi, 2010). With globalisation, financial institutions in developing countries like Nigeria should consistently disclose more information on time to shareholders and other interested parties so as to ensure their usefulness for decision making (Abiola & Ojo, 2012).

As a provider of investible funds, the Nigerian financial system is overwhelmed with problems of insider dealings, corruption, macroeconomic instability caused by large and sudden capital outflows by investors (institutions and individuals). Other issues include the failure of corporate governance and a lack of investor and consumer sophistication (CBN, 2010). Furthermore, inadequate disclosure and transparency of financial positions, critical gaps in regulatory framework and uneven supervision and enforcement exist. Moreover, inadequate management processes at the regulatory institutions and weaknesses in the business environment are other problems (Sunusi, 2010). For instance, the failure of corporate governance of some banks due to inadequate disclosures resulted in CEOs engaging in unethical governance and business malpractices (Chiejine, 2010; Marcellus, 2009).

Similarly, the Nigerian Capital Market Review (NCMR) observed the overbearing influence of CEOs in boards. The report shows an apparent lack of board independence

as directors seldom attend meetings, board committees are ineffective and, in some instances, they are redundant (NCMR, 2009). Moreover, the argument was made that only about 40% of Nigeria's listed companies had recognised a corporate governance framework in place before 2003 (SEC, 2010; Sunusi, 2011). In the same vein, a commissioned study by the World Bank noted that multiple regulations and inadequate enforcement and connivance with professional auditors to report fake results are militating factors against compliance (World Bank, 2004, 2011).

Consequent upon the highlighted problems above, a unified independent regulatory accounting, auditing, actuarial and valuation body with authority applicable to both public and private sectors known as the Financial Reporting Council of Nigeria (FRCN) was established. The FRCN replaced the former SEC that regulated Corporate Governance and former Nigerian accounting standards known as Statement of Accounting Standards (SAS) and the Nigerian Accounting Standards Board (NASB), which regulated the financial reporting of companies in Nigeria (Oboh, 2011; Ofo, 2013). However, despite the establishment of the Financial Reporting Council (FRCN) as the new financial regulator, Nigeria is still faced with the issue of compliance as some listed companies were found not to have complied with the IFRS disclosure requirements (Sunusi, 2012; Abiola & Ojo, 2012). Hence the need for further study to explore the regulatory enforcement by FRCN three years into the promulgation of the new regulatory regime.

Although Abbott, Park and Parker (2000) used a combination of audit committee independence and meeting frequency with respect to corporate fraud, to the best of this researcher's knowledge, no study has looked at the moderating effect of block holder

ownership on the relationship between audit committee characteristics, risk management committee characteristics and IFRS 7 compliance. Therefore, the present study looked at the relationship between four audit committee characteristics (size, expertise, and independence and meeting frequency) and IFRS 7 compliance. By so doing, the study answers the call made by Carcello, Hermanson, and Ye (2011) and DeFond and Francis (2005) for additional examining audit committee variables beyond independence and expertise. It also helps address the concern of inadequate studies on corporate governance attributes in Nigeria.

Some studies have also documented some aspects of Risk Management Committee (RMC) characteristics. For instance, Subramanian, McManus, and Zhang (2009) considered board size and board independence as important influencers of risk management committee oversight of the board of directors. Eccles, Herz, Keegan, and Phillips (2001) studied risk management and disclosure of different types of risks in financial statements. The authors concentrated only on the various kinds of risks as they affected financial institutions especially the banking industry while ignoring the influence of blockholder ownership on the relationship between risks and IFRS compliance. Power (2004) explored the importance of the risk management committee in financial institutions linking it with the need for regulatory intervention in view of the high profile cases of financial reporting failure especially in the banking industry.

Nonetheless, most studies have only documented non-financial institutions with only very few studies of financial institutions despite the sector's rapid transformation and growth (Khatiwada, 2010). Furthermore, these studies fail to recognise the influence of

block holder ownership on the relationship between risk management committee characteristics and IFRS compliance.

In addition, little empirical evidence exists with respect to RMC especially for financial institutions of developing countries like corporate Nigeria although this evidence is generally increasing in developed economies (Bischof, 2009). No doubt, a need exists for more studies on RMCs in listed financial institutions to observe corporate governance disclosure practices in their annual reports, which should be presented in a clear and transparent manner (Subramanian et al., 2009). Furthermore, study has concentrated on financial institutions while employing both financial and non-financial information of corporate governance attributes such as audit committee characteristics, risk management committee characteristics, management practices on risks and corporate governance in general.

Prior empirical research on how the composition of the boards of directors determines their strategic behavior in audit committee and risk management committee has shown inconclusive results. Some studies have found these attributes to serve as active monitors in the surveillance of the financial reporting process of entities (Baxter & Cotter, 2009; Bedard & Gendron, 2010; Mc Mullen & Raghunandan, 1996; Lin & Hwang, 2010; Liu & Zhuang, 2008; Agrawal & Ghadha, 2005). Others have failed to find any relationship with some of the variables and compliance. For instance, no relationship was found between independence, expertise and compliance (Anderson et al., 2004; Carcello & Neal, 2003b; Lee et al., 2004; Yang & Krishnan, 2005).

Others have studied the issue as well. Carcillo and Neal, (2003) and Baxter and Cotter (2009) did not find any relationship between size, expertise, meeting frequency and compliance. According to Carpenter (2002) and Talk, Salomo, and Rost (2010) this contradictory finding may likely be due to the omission of an important moderating variable. Based on these inconclusive or mixed findings, Baron and Kenny (1986) and Sekaran and Bougie, (2011) argued that a suitable moderating variable could be introduced to strengthen the relationship between independent and dependent variables. Hodgdon, Tondkar, Harless, and Adhikari (2008) suggested the introduction of an enforcement mechanism from internal corporate governance characteristics or audit to drive compliance.

Moreover, Rediker and Seth (1995) and Sundaramurthy and Mahoney (1997) pointed out that research on a single governance practice often neglects the unique associations with other existing governance qualities in the firm and their joint impact. Additionally, Aguilera, Desender and Castro (2012) found empirical support for the logic that the board's strategic behavior concerning disclosure in annual reports is highly influenced by the firm's ownership. This is because ownership determines directors' incentives and their abilities to monitor and impact the operational decisions of firms (Cronqvist & Fahlenbrach, 2009).

Because of such issues, Aguilera, Desender, and Castro (2012) suggested that future research should look at the interaction between ownership and other corporate governance compliance practices, corporate governance codes, and/or risk management practices. Based on these important propositions, it follows that that block holder ownership as a potential moderator of the relationship between audit committee

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characteristics, risk management committee characteristics and IFRS 7 compliance by listed financial institutions in Nigeria should be examined.

Carpenter (2002) extolled the controlling power of block investors on the board of director's as trustees in various committees and the entire board. This role has been reported to lead to higher company value and operating performance with a decrease in expenditure (Cheng & Reitenga, 2009). Block investors have enormous financial muscle and expert hiring ability to ensure adequate disclosure (Ferreira & Matos, 2008). Recent empirical experiences, especially in financial institutions of developing countries such as Nigeria, have pointed towards growth in block investment (institutional and individual) in heightening corporate control regulations and compliance (Saleh et al., 2010).

The four major block investors in Nigeria include banks, pension funds administrators, mutual funds, insurance companies and individuals (Gugong et al., 2014). These block investors own substantial shares (about 46%) in listed banks and insurance companies in Nigeria (Sunusi, 2012). This figure compares favourably with Malaysia, another developing country, in which block investors own 51.03% of the largest capitalized listed companies shares on Bursa Malaysia (Saleh et al. 2010).

The major reason for this ownership is due to the increasing awareness that only block holders (institutions and individual investors) have the capability to influence companies' decisions and monitoring ability to mitigate agency's opportunistic behaviour (Jensen & Meckling, 1976; Shleifer & Vishny, 1986). Moreover, agency theory argues that blockholder ownership can play a role in shaping the nature and

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extent of investment behaviour for corporate risks disclosure (Fama & Jensen, 1983). The study looked at the moderating effect of block holder ownership on the relationship between audit committee characteristics, risk management committee characteristics and IFRS 7 financial instruments disclosure compliance by listed financial institutions in Nigeria.

Furthermore, studies on the link between audit committee characteristics, risk management committee characteristics, block holder ownership and IFRS compliance are scanty especially in the context of financial institutions of developing economies. For instance, Barako, Hancock and Izan (2006) studied corporate governance and IFRS voluntary adoption in annual reports of Kenyan companies. Other studies include, India (Singhvi, 1968); Mexico (Chow & Wong-Boren, 1987); Nigeria (Wallace, 1988); Malaysia (Hossain, Tan & Adams, 1994); Bangladesh (Ahmed & Nicholas, 1994) and Zimbabwe (Owusu-Ansah, 1998). Similarly, Ijeoma (2014) studied the contribution of fair value accounting on corporate financial reporting while Akpan & Amran (2014) studied board characteristics and company performance in Nigeria

To the best of this researcher's knowledge no research links audit committee, risk management committee characteristics, block holder ownership as moderator and IFRS 7 compliance by listed financial institutions of developing countries with an emphasis on Nigeria. This is an important gap in the literature that will assist financial institutions in the disclosure of governance information as risk takers and risk managers in their annual reports (Andres et al., 2012; Kiruri, 2013; Laeven & Levine, 2009).

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Several studies have examined disclosure and IFRS 7. Amoako and Asante (2012) found a high rate of compliance with IFRS 7 in a study of six Ghanaian listed banks using 90 disclosures required items for two years 2008 and 2009. Bischof (2009) found an increase in IFRS 7 disclosure quality attributable to enforcement and regulation in both financial statement and risk report. This study used a sample of 117 banks from three developed countries of Denmark, Italy and the United Kingdom with a risk focus shifting from market to credit risks. Pasternak (2011) examined IFRS 7 implementation in the United States in 2007 and found an improvement in compliance. However, these researchers found variations in the use of different models. Hossain (2014) studied 12 IFRS 7 required risk items in the balance sheet of Bangladeshi nationalised banks and found substantial compliance with the disclosure requirements.

A recent study by Atanasovski (2015) using 55 IFRS 7 required disclosure items on six corporate attributes of size, industry, leverage, ownership concentration, profitability and audit quality observe an improvement in compliance. In contrast, other studies provided evidence of non-compliance by companies in different contexts with claims of IFRS adoption (Street, Gray, & Bryant, 1999; Street & Bryant, 2000; Street & Gray, 2002; Glaum & Street, 2003; Al-Shammari, Brown, & Tarca, 2008; Hodgdon, Tondkar, Adhikari, & Harless, 2009; Al-Akra, Eddie, & Ali, 2010).

The present study expects a high level of compliance with disclosure requirements of IFRS 7 in Nigeria because recent studies have reported a significant level of financial performance due to changes in corporate governance regulations and IFRS adoption (Ahmed et al., 2014; Gugong et al. 2014). However, based on this researcher's knowledge, a lack of studies exist that have examined the extent of IFRS compliance

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with disclosure requirements in the context of financial institutions of developing countries so far. Hence, the present study examines the level of IFRS 7 compliance by listed financial institutions in Nigeria for three years (2012-2014). The year 2012 was chosen because it was the first year of IFRS adoption in Nigeria (Anyahara, 2012) while the year 2014 is the last year with available data. Besides, two years and above are considered to be enough in panel data study to reveal the trends in compliance (Amoako & Asante, 2012; Hodgdon et al. 2008). This study is timely because it investigates internal corporate governance mechanisms and IFRS 7 compliance as new reporting frameworks earlier into the adoption process. Finally, this study on IFRS 7 compliance is a response to Verrecchia's (2001) call for empirical disclosure research on less developed capital markets such as Nigeria.

Drawing on both practical and academic empirical research, the objective of the study is to examine whether the extent of compliance with IFRS 7 disclosure requirements by listed financial institutions in Nigeria fulfils the intended purpose. For example, the provision of decision-useful information to shareholders and other interested users (IASB, 2006).

Similarly, the first question relates to the extent that listed financial institutions comply with IFRS 7 disclosure required items in Nigeria while the second centres on how AC characteristics (size, expertise, independence and meeting frequency) will have significant impact on IFRS 7 compliance in Nigeria.

The third question enquires about how board RMC characteristics (size, expertise, independence, meeting frequency) can have a significant impact on IFRS 7 compliance

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in Nigeria. Finally, the study examines the moderating effect of block holder ownership on the relationship between AC characteristics and RMC characteristics (size, expertise, independence, and meeting frequency) and IFRS 7 compliance in Nigeria.

1.3   Research Questions

This study formulates the following research questions to guide the research objectives.

1. To what extent do listed financial institutions comply with disclosure requirements of IFRS 7 in Nigeria?

2. Do AC characteristics (size, expertise, independence, meeting frequency) have a significant effect on IFRS 7 compliance with disclosure requirements by listed financial institutions in Nigeria?

3. Do RMC characteristics (size, expertise, independence, meeting frequency) have a significant effect on IFRS 7 compliance by listed financial institutions in Nigeria?

4. Does block holder ownership significantly affect the IFRS 7 compliance by listed financial institutions in Nigeria?

5. Does block holder ownership moderate the relationship between AC characteristics (size, expertise, independence, meeting frequency) and IFRS 7 compliance by listed financial institutions in Nigeria?

6. Does block holder ownership moderate the relationship between RMC characteristics (size, expertise, independence, meeting frequency) and IFRS 7 compliance by listed financial institutions in Nigeria?

1.4 Research Objectives

In line with the above research questions, the following research objectives are formulated. They are:

1. To examine the level of IFRS 7 compliance by listed financial institutions in Nigeria;

2. To examine the relationship between AC characteristics (size, expertise, independence, meeting frequency) and IFRS 7 compliance by listed financial institutions in Nigeria;

3. To examine the relationship between RMC characteristics (size, expertise, independence, meeting frequency) and IFRS 7 compliance by listed financial institutions in Nigeria;

4. To examine the relationship between block holder ownership and IFRS 7 compliance by listed financial institutions in Nigeria;

5. To examine the moderating effect of block holder ownership on the relationship between AC characteristics (size, expertise, independence, meeting frequency) and IFRS 7 compliance by listed financial institutions in Nigeria; and

6. To examine the moderating effect of block holder ownership on the relationship between RMC characteristics (size, expertise, independence, meeting frequency) and IFRS 7 compliance by listed financial institutions in Nigeria.

1.5 Significance of the Study

The importance of this study is borne from the desire of Nigerian government to make information disclosure one of its priorities to become one of the top 20 developed economies in the world by the year 2020. This is believed to be achievable through

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efficient corporate governance mechanisms, capital structure and compliance with the standard accounting practices. Despite the existence of studies on the relationship between corporate governance characteristics, ownership structure and IFRS compliance, however, to the best of this researcher's knowledge no study has observed the moderating role of block holder ownership on the relationship between audit committee characteristics, risk management committee characteristics and IFRS 7 compliance by listed financial institutions in the context of a developing country such as Nigeria.

The introduction of block holder ownership to moderate the relationships between internal governance attributes and IFRS 7 disclosure in financial institutions of an emerging economy like Nigeria is of decisive significance. According to Nigeria's SEC code of corporate governance, block holder investors are increasing in significance and are playing a very active role in the economic development of the country (SEC, 2011). The study will, therefore, enhance comparison of previous studies on compliance without blockholder ownership as a moderator and the current research with blockholder investment as an intervening variable.

Theoretically, prior studies have focused more on disclosure in developed economies and in particular, the United States, Australia and European countries. These studies include Callao and Jane (2010), Ernstberger and Vogler, (2008), Latridis and Rouvolis (2010) and Tsalavoutas and Evans (2010). There are also other studies in developed countries such as Australia (Clarkson et al., 2011; Goodwin et al., 2008; Jeanjean & Stolowy, 2008). In contrast, developing countries and emerging markets have been neglected with only a very few studies (Agamah, 2013; Abdullah & Ku Ismail, 2015).

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Hence, a significant gap exists in the literature, which this study hopes to narrow. This study is of the opinion that a good accounting standard like IFRS can increase the quality of financial statement disclosure in developing countries. Thus, the extent of compliance with disclosure requirements of IFRS will be most felt in developing economies. This is because developed nations already have matured regulations and enforcement (Iddamalgoda, 1986).

Similarly, the research also addresses the concern expressed about the inadequate number of studies on corporate governance in Nigeria (Agamah, 2013). Thus, the study is significant to academicians due to the current shortage of literature in the area of audit committee characteristics, risk management committee characteristics and IFRS 7 compliance and will assist them in further research.

Methodologically, previous studies on IFRS 7 compliance were only specific on some types of risks. For instance, Miihkinen (2012) studied five types of risks: strategic, operational, financial, damage and risk management with 41 required disclosure items. The CFA Institute (2011) concentrated on three types of risks: 1) credit, 2) liquidity and 3) market risks across different industries with 36 required disclosure items. Amoako and Asante (2012) constructed a disclosure checklist of 90 required disclosure items to measure the level of compliance with disclosure requirements of IFRS 7 by listed Ghanaian banks.

Atanasovski (2015) argued that six attributes in financial statements with 55 required items of disclosure could be employed to measure risks. These, according to the author, include size, industry, leverage, ownership concentration, and profitability and audit

quality. Research whose interest is on the whole IFRS 7-required items complements and extends existing archival and survey research in prior IFRS 7 studies by applying a richer and more authoritative disclosure checklist of 132 disclosure required items as designed by the "Big4" audit firms such as Delloite (2012), EY (2012) and PricewaterhouseCoppers (PwC, 2013).

This study thus enhances the effectiveness of the International Accounting Standards Board's recommendations on disclosure in their 2013 discussion paper sub-titled: *A Review of the Conceptual Framework for Financial Reporting* (IASB, 2013). The methodology may also help to increase the knowledge of stakeholders about the informational requirements of the standards in their assessment of risks. Finally, this study supports the calls from practitioners for financial institutions to improve their disclosure of material economic hazards whose research argue is growing in length but decreasing in informativeness (Papa & Peters, 2013; Hoogervorst, 2013; KPMG, 2011).

Practically speaking, no doubt exists that IFRS 7 compliance study will assist users of the annual reports such as investors, financial analysts, governments, the regulatory authorities and the general public in business choices and policy formulation. For instance, creditors and investors will be able to determine the financial strength of an institution through the reports of audit committees and risk management committees and the influence of block investors in annual report. Moreover, a report such as this study's finding will facilitate sound decision-making about the future prospects of a company by various stakeholders.

Moreover, financial analysts will benefit in their analysis of risk-return trade-offs thereby giving better advice to their clients. Government rely on figures in annual reports for tax assessments. This study will be of significance to regulatory authorities (Financial Reporting Council of Nigeria, Nigerian Stock Exchange, Securities and Exchange Commission, and Central Bank of Nigeria) especially in relationship to compliance and the adequacy or inadequacy of the standards. The findings of this study may assist in forming the basis of Nigeria's input to the International Accounting Standards Board and the International Financial Reporting Standards Foundation.

This study's findings will be of immense benefit to regulators, practitioners and researchers in both the practical and theoretical areas of corporate governance and international financial accounting standards reporting in annual reports. This study will be useful to regulatory authorities (Financial Reporting Council of Nigeria and the Securities and Exchange Commission), especially in areas relating to application and compliance by quoted financial institutions in Nigeria. The result of this study will provide valid evidence of the complexity of IFRS 7 compliance (Eccles et al., 2001; Lipunga, 2014). Thus, recommendations will be forwarded to Financial Reporting Council of Nigeria for improvement.

This study provides better insight into the adequacy or inadequacy of financial instruments disclosure reporting that will form the basis of Nigeria's input to the International Accounting Standards Board. Further, the corporate governance characteristics discussed in this study will assist regulatory authorities to enhance the framework. Furthermore, the study may help in assessing the level of compliance of risk and uncertainty of future cash flows associated with a financial institution. IFRS 7

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is the new accounting and reporting language that is more appropriate to financial institutions because it critically assesses the concept of fair value that enhances transparency in annual reports (Lhaopadchan, 2010).

1.6   Scope of the Study

This study assesses the extent and level of compliance with disclosure requirements of International Financial Reporting Standards 7 (IFRS 7) financial instruments disclosure by financial institutions listed on the Nigerian Stock Exchange (NSE). This study assesses the level of compliance by listed financial institutions for a period of three years from 2012 to 2014 using secondary data. The three years are considered appropriate to generate enough data and assess compliance so that early empirical evidence can be assessed for further decisions by regulatory authorities in Nigeria (Amoako & Asante, 2012). Furthermore, Hodgdon et al. (2009) argued that using panel data for two years or more allows for effective control of accounting attributes that may induce IFRS compliance. Moreover, the study's scope includes those independent and control characteristics found to be strong determinants of compliance in prior research (Chen & Zhang, 2010; Hodgdon et al., 2008, 2009).

The study of corporate governance and IFRS 7 compliance is of interest to financial institutions (banks and insurance) in Nigeria. This is because there is broad evidence of problems relating to accounting for financial instruments disclosure in this institutions globally (Amoako & Asante, 2012; Chalmers, 2001). In addition, financial instruments disclosure standards are viewed as complex and have very complicated implementation by companies (Larson & Street, 2004). Hence, the study intends to find out how listed financial institutions in Nigeria are complying with the disclosure requirements of IFRS

7 from the period of mandatory compliance on January 1, 2012 until 2014. Moreover, the multiplicity of regulations on financial institutions in Nigeria arouses curiosity to assess whether financial institutions are complying with disclosure requirements (World Bank, 2004, 2011).

1.7   Plan of the Study

This study is organised in five chapters. The first chapter provides background of the study, followed by the problem statement, research objectives, the research questions, scope of the study and significance of the study. The subsequent chapters include Chapter Two that contains a literature review of corporate governance in Nigeria, the relationship between audit and risk management committee characteristics and IFRS 7 compliance. Chapter Three discusses the research framework and research methodology. Data was obtained and analyzed based on the method in Chapter Four. Chapter Five summarises, concludes and give recommendations and suggests directions for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

This chapter reviews the relevant literature on audit committees, risk management committees and IFRS compliance. More precisely, Section 2.2 explains the meanings and definitions of corporate governance (audit committee and risk management committee) while Section 2.3 discusses the development of corporate governance in Nigeria. Section 2.4 discusses International Financial Reporting Standards 7 (IFRS 7) whereas Section 2.5 discusses the theories underpinning this study. Section 2.6 reviews previous empirical studies on IFRS with respect to audit committee and risk management committee, while Section 2.7 discusses the control variables of the study. Section 2.8 discusses blockholder ownership, and, lastly, Section 2.9 summarises the chapter.

2.2   Corporate Governance
2.2.1   Corporate Governance (CG) Definition and Meaning

No universal definition of corporate governance exists (Rashidah & Rizal, 2010). However, the Organisation for Economic Cooperation and Development (OECD) has defined it as the establishment of associations between a company's board, its shareholders, and other stakeholders. Corporate governance provides the required nexus through which organisational objectives and effective oversight monitoring are determined (OECD, 1999). Furthermore, in its revised 2004 definition, the OECD

extended its focus on the rights and equitable treatment of all categories of shareholders as capital providers; the role of stakeholders especially creditors and employees; the government as tax collectors and legal enforcers of information disclosure and transparency; and the duties of the board of directors as corporate governance oversight implementers.

Furthermore, in agency theory, corporate governance is referred to as the manner in which capital suppliers are assured of appropriate returns in terms not only of dividends but also of their invested capital (Shleifer & Vishny, 1997). According to Cadbury (1992), corporate governance is the system by which companies are directed and monitored by the board of directors. With respect to Nigeria, Okike (2007) views corporate governance as an issue of regulation and corporate control of businesses that is largely covered within the provisions of company legislation with its roots from British colonial masters. Obviously, these definitions portray corporate governance as involving the process of decision-making within entities for the benefit of shareholders and other parties with interests in the affairs of the company.

2.2.2 Audit Committee (AC)

The excessive fraudulent financial reporting practices on global basis that led to the collapse of various corporations such as Enron and WorldCom in the United States, Xerox in the United Kingdom as well as Oceanic and Intercontinental banks in Nigeria, resulted in the recent attention given to corporate governance. This also gave rise to various corporate governance codes issued since 1992 (Marx, 2009).

In order to improve investors' confidence in the integrity of financial statements, audit committees are statutorily established as a corporate governance device to monitor and ensure qualitative financial reporting and corporate accountability (Carcello & Neal 2000). ACs primarily oversee a firm's financial reporting process. They meet regularly with the firm's professional auditors and internal financial managers to review the corporation's financial statements, audit process, and internal accounting controls. As a liaison between the board of directors and external auditors, an audit committee serves as a bridge for information asymmetry reduction between them, facilitating the monitoring process and enhancing independence of an auditor from management. In this regard, Marx (2009) defines audit committee as a sub-committee of the board of directors that consists of independent non-executive members with financial and other expertise. The committee is charged with the oversight role of assisting the entire board of directors to meet their financial reporting, control and audit-related responsibilities through frequent meetings.
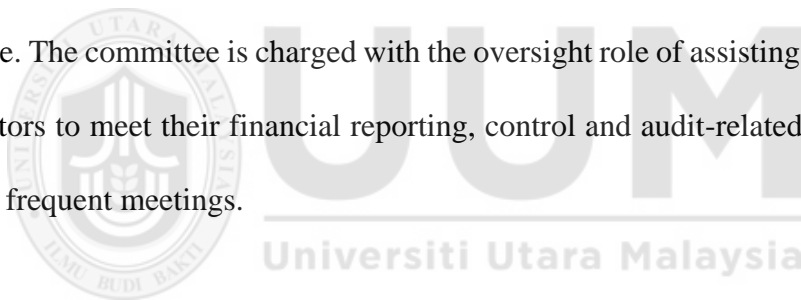
Because poor corporate governance has been empirically researched as the main reason for massive declines in shareholder value, various governance rules and pronouncements have been proposed internationally to mitigate its effects. These include, for instance, the corporate governance rules by the New York Stock Exchange (NYSE), the National Association of Securities Dealers Automated Quotation System rules (NASDAQ) approved by the Securities and Exchange Commission (SEC) of United States in 2003; the Sarbanes-Oxley Act (2002) and the Securities and Exchange Commission (SEC) code of corporate governance in Nigeria of 2003 (Klein 2003; Zhou & Chen, 2004).

In addition to the traditional roles of internal and external auditing, accounting and financial reporting, audit committees in Nigeria are required to ensure that banks and insurance companies comply with the reporting requirements of CBN code (CBN, 2006); Banks and Other Financial Institutions Act (BOFIA, 1991); Nigeria Deposit Insurance Act (NDIC, 2008) and National Insurance Commission code (NAICOM, 2008).

2.2.3 Risk Management Committee (RMC)

The Risk Management Committee is a sub-committee of the board of directors appointed to review a company's risk management strategies (Leadership, 2011). The committee is established in companies principally on the assumption that no organisation has the ability to function in a risk-free environment (Abdullah & Ku Ismail, 2015). Public institutions like banks and insurance companies especially have more risks associated with their responsibilities (Kothari, 2000). The oversight functions of the Risk Management Committee include risk management processes and risk exposure in financial institutions that encompasses credit, the market, liquidity, operational, reputational and other risks (Hassan et al. 2010).

According to the Nigerian code of corporate governance, the board may, in addition to an audit committee, establish risk management, corporate governance and remuneration committees and such other committees as may be required from time to time as the need arises (SEC, 2011). However, the CBN code of 2006 and the National insurance company (NAICOM) code of 2009 which are firm specific made it mandatory for listed banks and insurance companies to establish risk management committees to align with international best practices (CBN, 2006; NAICOM, 2009).

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The membership of a risk management committee should comprise both management and external members with the necessary blend of skills, competencies and attributes (SEC, 2011). The committee members should possess an intimate understanding of the company's operations; have ability to act independently and objectively in the interests of the company; and should have an in-depth knowledge of risk management principles and their application.

The chairperson of the risk management committee should be an independent non–executive member appointed by the board of directors. The appointment letter should be signed by the board chairman with responsibilities clearly defined in the board's charter. Risk management committees are to ensure sustainable and reliable delivery of services and should have appropriate rigour, analytical and innovative skills to prevent waste, fraud and corruption. Risk management committees should be able to create better value for money through the efficient use of resources and ensure positive inputs and outcomes by designing new projects in conjunction with management (Alles et al., 2005).

2.3   Corporate Governance Development in Nigeria

Corporate governance structure and regulation in Nigeria started with the control of businesses by the colonial masters, which resulted many rules being inherited. Nigeria's corporate governance (CG) is thus a direct reflection of that of the United Kingdom (Okike, 2007). For instance, the British legal system and company ordinances brought about the system of corporate governance practices in Nigeria since 1922. Notwithstanding this, however, corporate governance principles in Nigeria focus on the

interest of shareholders and the ability of management to use their private information to maximize shareholders' wealth.

Moreover, the rights to buy and sell shares at prices are determined by forces of demand and supply in the capital market, which helps to align the interests of principals and management. Company executives are accountable to the board of directors, who, in turn, are accountable to shareholders. The rights and duties of all those responsible in the company's corporate governance are enshrined in statute books (Franks & Mayer, 1994).

On attaining independence in 1960, the company's ordinance of 1922 was reviewed and a new law known as the Company's Act of 1968 became the operationalised code of corporate governance in Nigeria (Okike, 2007). Prior to the promulgation of the company's act, however, the foreign colonial masters had dominated the business landscape using the British company laws because the local legislation in Nigeria could not adequately address the rapidly expanding commercial and economic development of the country at that time (Umoren, 2008). In an attempt to break the lingering issue of foreign domination, the federal government of Nigeria introduced the indigenisation policy in 1972. The indigenisation policy specifically highlights the supremacy of shareholders in the management and control of their wealth (Ofo, 2013).

Furthermore, the primary corporate governance legal framework in Nigeria is the Investments and Securities Act (ISA), which became law in June 2007 (Al-Faki, 2008). The act which repealed the previous Investments and Securities Act of 1999, establishes Securities and Exchange Commission (the "Commission" or SEC) as top regulator for

Nigerian capital market to ensure the protection of investors, maintain fair, efficient and transparent market and reduce systemic risk (Adefulu, 2009). The 1999 investment and securities act incorporates a voluntary code of corporate governance in Nigeria, which spelt out roles and duties of board directors, auditors and the rights and responsibilities of shareholders (Okike, 2007).

Prior to the eminence of "corporate governance" as a term to be used as an agency theory principle in the resolution of conflicts between principals and agents, some form of laws to regulate the operations of companies were in place in Nigeria. According to the World Bank, these mechanisms were multiple, leading to inefficient regulation and monitoring (World Bank, 2004). These laws include the Privatisation and Commercialisation Act 1980 which became effective in 1988 to monitor and supervise the sale of federal government shares in public enterprises. The Companies and Allied Matters Act (CAMA) was established as a standard regulation applying to all companies operating in Nigeria (CAMA, 1990). The provision of Nigeria's corporate governance regulations related to the management of companies' financial reporting requirements, and audit process are enshrined in the CAMA Act. However, in contrast to the corporate governance mechanisms in developed economies that ensure that a company's management acts in the best interests of investors and other stakeholders, the mechanism was relatively inactive in developing countries including Nigeria (Tsamenyi et al., 2007). For instance, external controls such as legal protections are poorly enforced and market competition fairly inactive and provide limited corporate management oversight (Sunusi, 2011).

The Securities and Exchange Commission rules and regulations (1999) were meant to protect the integrity of securities market against both inside and outside abuses from stock trading. The Investments and Securities Act (ISA) was the statutory regulation that established the Nigerian Stock Exchange (SEC, 1961). The Banks and Other Financial Institutions Act (BOFIA, 1991) is a regulation specifically meant to address any lapses or short comings in Nigerian financial institutions.

The Central Bank of Nigeria (CBN) was established by the CBN act of 1959. CBN is the apex regulatory body for all registered banks in Nigeria that, through its code, regulates the appointment of registered banks board of directors and the executive management positions (CBN, 2006). The CBN does not permit the practice of a chairperson serving simultaneously as the chief executive officer or board chairperson serving as the board committee chair in Nigerian banks. However, unlike the CBN act which basically regulates financial institutions, the SEC code regulates all registered companies in Nigeria.

2.3.1 The SEC Code of Governance in Nigeria (2003)

The Nigerian code of corporate governance (SEC, 2003) was seen as an all-embracing document which explained minimum standards of corporate governance responsibility of Nigerian public companies with listed securities. The code states that the responsibility to ensure compliance with the principles and provisions enshrined in the code lie with company's board of directors (SEC, 2003). Moreover, block investors are requested to be abreast of the letter and spirit of the code and are encouraged if necessary to demand compliance by their investee companies. However, on close scrutiny, this corporate governance code shows some resemblance with the OECD

framework which is Anglo-American model, with enormous power conferred on company management as in the US and UK companies (Adegbite, 2012; La Porta et al., 1999).

The 2003 SEC code is associated with certain lapses such as lack of adequate recognition to company employees and other stakeholders with proprietary interests (Ogbechie & Ajogwu, 2010). Studies argued that a wider objective is more economically rewarding than restricting a company only on shareholder benefits (Jones, 1995; Kay & Silberston, 1995). The arguments here is that employees create wealth hence, as the company's nucleus; they deserve better compensation packages than what was meted out to them.

Additionally, the 2003 Nigerian code of corporate governance specifically states that, compliance by all companies is voluntary. This means that, there is no legal sanction or punishment for non-compliance even for listed companies (SEC, 2003). This no doubt is an obvious shortcoming on the part of policy makers and it is the reason why corporate abuses in Nigeria mostly on governance issues were predominant.

2.3.2 The SEC code of Governance in Nigeria (2011)

Two principal reasons gave rise to a new Securities and Exchange Commission (SEC) code of governance in 2011. These according to World Bank include multitude of codes by different regulatory authorities such as CBN, 2006; PENCOM, 2008; NAICOM, 2009 and World Bank, 2011. It was also observed that the issue of director' appointment, tenure, remuneration and evaluation, independence of external auditors,

whistle-blowing procedures, sustainability and general disclosure and transparency issues was not adequately addressed in the SEC code of 2003.

Consequently, after setting up a committee to consolidate the 2003 code of corporate governance, the first draft was exposed for useful comments and possible inputs by the public in 2009. The code was subsequently released after approval by the SEC governing council on April 1, 2011 (SEC, 2011). This document became minimum standard of compliance by listed companies in Nigeria until the enactment of a new statute Known as Financial Reporting Council of Nigeria (FRCN) by Federal Government of Nigeria in 2011.

2.3.3   The Financial Reporting Council of Nigeria (FRCN)

The Financial Reporting Council of Nigeria is the new financial reporting regulator of companies in Nigeria (Oboh, 2011). The council which was enacted in June 2011 has a new act known as the Financial Reporting Standards Act (FRSA) in place of the Nigerian accounting standards board act 1993. The financial reporting council act (FRCA) is a comprehensive set of regulatory framework whose outline includes accounting, auditing, and corporate governance rules and regulations. The accounting and auditing frameworks are now regulated by the Financial Reporting Council of Nigeria. These rules and standards are almost the same with the FRC of the UK, which is similar to that of Australia and the Public Company Accounting Oversight Board (PCAOB) of the United States of America (USA).

The objects and functions of the FRCA includes giving guidance to public companies on issues relating to financial reporting and corporate governance, ensure good

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corporate governance practices in the public and private sectors of the Nigerian economy, ensure accuracy and reliability of financial reports and corporate disclosures pursuant to various laws and regulations in Nigeria and harmonise activities of relevant professional bodies relating to corporate governance and financial reporting in Nigeria (FRCN, 2011).

The financial reporting council of Nigeria (FRCN) is now the new regulator for local financial reporting under Nigerian laws. The council is the overseer of other regulations such as IFRS, corporate governance codes both national and firm specific and disclosures made by auditors, and audit committees as required by the Companies and Allied Matters Act (CAMA). Besides local legislation, the adoption of the International Reporting Financial Standards (IFRS) from January 2012 makes it mandatory for Nigerian companies with or without international presence to adopt IFRS. Audit committees have the responsibility to ensure that local financial reporting standards and International Financial Reporting Standards are strictly adhered to by all companies.

According to Oboh (2011), FRCN which became law on 3th June 2011, is a unified independent regulatory accounting, auditing, actuarial and valuation body applicable to both public and private sectors. This unified code was broadcast live on a television program and became effective on 1st January, 2014 (This day live, 2012). The FRCN is empowered to develop principles, promote highest ethical standards of public awareness and act as national coordinating body responsible for all matters relating to corporate governance and IFRS compliance. Other duties include the promotion of transparent financial reporting and accountability based on true and fair view financial statements duly signed by professionally independent auditors (Ofo, 2013).

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The corporate governance board structure in Nigeria is similar to that of the United Kingdom perhaps due to that country's colonial ties with Britain (Lopes & Rodrigues, 2007). The boards of companies in Nigeria have adopted the single-tier system, without a separate supervising board (Fernandes, 2005). The single board comprises the CEO, other executive managers and non-executive directors who are independent members appointed by the shareholders at the company's annual general meetings. The non-executive role is to protect shareholders' interests. This is done by filling the gap in monitoring between minority shareholders, who in a dispersed ownership structure, are largely uninformed and the educated executive management (Kamardin & Haron, 2011).

Several previous studies in the context of disclosure have comparatively characterized countries with regard to their financial, regulatory and corporate governance systems. However, a dearth of literature on corporate governance exists for developing economies in general and for Nigeria in particular as an emerging nation (Agamah, 2013; Barako et al., 2006). Many studies so far have classified Nigeria in their analyses as a common law country, specifically of the British family tradition (Lopes & Rodrigues, 2007; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997). Hence, corporate governance practices still follow the common law reporting system.

2.3.4 Corporate governance in Nigerian financial institutions

Listed financial institutions, specifically banks and insurance companies, have to comply with SEC rules. Yakasai (2001) confirmed that the banking industry is the most organised, with CBN being the apex financial institution. The Banks and Other Financial Institutions act (BOFIA) of 1991 is meant to regulate and receive audited

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financial statements of listed banks before publication in a national daily newspaper within four months of year-end (Ilaboya & Christian, 2014). The CBN jointly with the Nigerian deposit insurance company (NDIC) may also order special examinations of a bank's books and it is the responsibility of independent auditors of banks and other financial institutions to report negative misconduct including contraventions and irregularities by any bank or other financial institution to the CBN (Sunusi, 2011).

Yakasai (2001) maintains that the corporate governance of banks though a private sector financial institution is of paramount interest to the Nigerian saving and investing populace. This is because banks and insurance provide the largest financial intermediation in the capital market (Chukwuma, 2009). The interest of bank depositors and shareholders is safety and returns for their investment. While government and the public are more interested in a safe and stable banking industry, employees are more interested in sustained employment.

Given this chain of interests on the part of various stakeholders, much is expected from the board of directors (Yakasai, 2001). This partly informs the reason as to why the CBN also issued a code of corporate governance for Nigerian banks in 2006. The CBN code gives mandatory guidance on organizational structure; equity ownership in banks; board membership quality; type of board committees such as board risk management committee, board audit committees; the board nomination and remuneration committees, the accountability and transparency reporting relationship; due process; disclosure requirements; and role of internal and external auditors (Ibru, 2008).

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In assessing the role of financial institutions, Ibru (2008) opines that Nigerian banks are now playing by rules of the game particularly after the recapitalisation exercise of 2004 due to heavy sanctions imposed by the CBN for non-compliance. According to the author, sanctions are through bad publicity, national assembly committee probes, panic withdrawals by customers and possible withdrawal of banking license. It was, however, astonishing to note that only one year after the public paper presentation at a workshop on corporate governance, the Chief Executive Officer (CEO) of a high profile bank in Nigeria, was sacked by CBN Governor in exercise of the powers conferred on him on August 14th, 2009. This CEO is now serving jail-term after being convicted by a Nigerian court.

The various corporate scandals in the financial sector due to weak corporate governance and non-compliance with the 2003 SEC regulations apparently signified that more drastic action was needed to forestall future occurrences of the financial crisis. Hence, industry specific corporate governance codes came up. The first specific industry attempt was by the CBN which rolled out its code in 2006 to cater for the Nigerian banking industry post-consolidation (CBN, 2006). In addition to normal corporate governance issues on the board, management and their relationship with shareholders and other stakeholders the code also addressed issues related to mergers and acquisitions within the Nigerian banking landscape (CBN, 2006).

The second regulatory authority, which was the National Pension Commission (PENCOM), issued the corporate governance code for licensed pension operators (PENCOM, 2008). The PENCOM code gives legal backing and accommodates reforms, which give greater autonomy to private participation in pension fund

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administration and management in Nigeria. This was closely followed by another regulator, the National Insurance Commission (NAICOM) in 2009. The NAICOM code recognises proactive, responsible, responsive, accountable and committed board and management and a culture of compliance with rules and regulations as the basic principles of good corporate governance (Fadun, 2013).

2.3.5 Corporate governance and the issue of corruption in Nigeria

Prior to democratic experiment in 1999, corruption and economic sabotage were the norm in Nigeria with neither transparency nor accountability from the nation's rulers and or their foreign fronts (Ofo, 2013). Corruption permeated the hitherto well-organised private sector of the Nigerian economy to the detriment of minority shareholders, resulting in many corporate failures (Okike, 2007). For example, five banks chief executives and their entire executive managements were dismissed by the CBN in 2007 for flagrant abuse of their positions due to inside dealings.

Furthermore, two other CEOs of banks are serving various jail terms due to flagrant abuse of their responsibilities while in office. More discoveries of management excesses were made, especially in banks and insurance sub-sector, with startling revelations (Okpara, 2009). Ofo (2013) suggested that for corporate governance to be effective all hands must be on deck to curtail corruption and economic sabotage.

Fortunately, the government of Nigeria has shown some commitment to rid the country of all forms of poor governance. The country established an anti-corruption framework known as the Economic and Financial Crimes Commission (EFCC) currently serving

to mitigate Nigeria's corruption. The commission has been granted enormous powers to investigate and seek legal means to prosecute (Ofo, 2013).

Obviously, certain factors lead to corruption in Nigeria. These include the country's experimentation with different styles of governance, different economic experiences and changing fortunes of the people. This change in governance within the Nigerian political and economic horizon has influence to a great extent the accounting disclosure practices of the country in so many ways. In this regard, the rapid growth of Nigeria has been attributed as the main cause of corruption (Okike, 2004).

2.3.6 Reform of Accounting and Corporate Governance Regulations in Nigeria

In the new globalised world, companies try to impress upon their shareholders and prospective investors that they provide better investment opportunities by highlighting the positive side of their company through the disclosure of relevant information in annual reports (Alhazaimeh, Palaniappan, & Almsafir, 2013).

The effectiveness of an accounting regime changes such as the Financial Reporting Council of Nigeria (FRCN) through IFRS and corporate governance regulations by the Securities and Exchange Commission (SEC) in 2011 in achieving the objectives of accounting information disclosure depends upon the accounting system and of corporate governance framework put in place (Al-Akra et al., 2010; Einthoven, 1998). However, in Nigeria, stale and inadequate accounting systems have undermined the achievement of accounting policies and led to the inability to attract and retain the confidence of the investing public (Sunusi, 2011; Shehadi, 2002).

Enabling legislation for financial reporting council of Nigeria (FRCN), which was a new accounting regulator in Nigeria, was signed into law on June 11, 2011 to, among others things, develop and publish accounting, financial, auditing, corporate governance and actuarial services standards. The council was also to review, promote and enforce stringent regulations being the only adequate enforcement mechanism. They are further to enforce sanctions for non-compliance in line with the provisions in Article 8, Section 1, Sub-sections a-r of the Financial Reporting Council of Nigeria Act No. 6 (FRCN, 2011; Sunusi, 2012).

Prior studies have observed that disclosure standards are at their most valuable only if compliance is enforced and constantly monitored by efficient institutions (Al-Akra et al., 2010; Healy and Palepu, 2001; Hodgdon et al. 2009). In line with other compliance studies, the use of regulations such as IFRS 7 financial instruments disclosure in banks and insurance companies in Nigeria as an enforcement mechanism is expected to improve the implementation of accounting standards and enhance the compliance level (Al-Akra et al. 2010; Hodgdon et al., 2009). However, according to Owusu-Ansah and Yeoh (2005), companies do not comply with mandatory requirements unless stringent regulations are put in place.

Moreover, the disclosure pattern is capable of causing major shifts in ownership structure as international community and foreign investors now view Nigerian companies as transparent in their dealings with stakeholders. These disclosures are capable of significantly altering the ownership structure of a firm's especially financial institutions and dramatically increasing the number of shareholders in Nigeria (Sunusi, 2010; Gugong et al., 2014). Similarly, Eng and Mak (2003) observed that the ownership

structure determines the level of monitoring and level of disclosure. For example, block investors can monitor management closely through their representatives on the board and require high standards of information disclosure (Gugong et al., 2014).

There are many studies on disclosure regulations. For example, Al-Akra et al. (2010) found that disclosure regulation reforms produced the most significant influence on mandatory disclosure compliance in Jordan. The authors further found governance reforms also played a significant role through some characteristics such as board size, non-executive directors and ownership structure. Hence, the adoption of high quality accounting standards such as IFRS 7 and good corporate governance regulation as that adopted in Nigeria since 2011 are expected to play vital roles in mobilising domestic savings and attracting foreign investments, i.e., foreign direct investments and foreign portfolio investments (Sunusi, 2012).

The argument has been made that the resulting IFRS accounting reforms and corporate governance regulation both contribute to the development of accounting disclosure and practices in Nigeria (Sunusi, 2012). The efforts of international bodies, particularly the IASB are of particular relevance. This accounting body has had an influential impact on Nigeria's accounting disclosure practices and corporate governance and disclosure regulatory reforms in 2012 and 2011 respectively.

2.4   International Financial Reporting Standards (IFRS)

According to the International Financial Reporting Standards Foundation (IFRSF), IFRS is a set of accounting standards developed by an independent, non-profit organization known as the International Accounting Standards Board (IASB) (IFRSF,

2001). The principal objective of IFRS is to provide global standards that are applicable in the preparation and disclosure in the financial statements of companies (Horton et al. 2013; Eccles, 2004). Hence, IFRS is not a rule making framework but a working guidance for companies to prepare their financial statements. Because IFRS is a global standard, large companies that have subsidiaries in different countries of the world can apply the same accounting language in their financial statements throughout (IASB, 2013).

As a single accounting language, IFRS helps investors make investment choices and external auditors to have a holistic view of their client's investments (IASB, 2006). It also provides a standardized framework of accounting language to companies, investors, regulators and preparers of financial statements with a set of rules to abide by when preparing an entity's accounts aimed at ensuring transparency and comparability across capital markets (Zeghal & Mhedhbi, 2012). Companies listed on public stock exchanges in developed, emerging and developing economies are legally required to publish financial statements in accordance with the relevant accounting standards.

With the growing internationalisation of business and the recent boost in information and telecommunication technology across capital markets, financial statements prepared on the basis of traditional accounting and auditing framework may no longer meet the yearnings and aspirations of users whose investment goals have shifted towards internationality (Zeghal & Mhedhbi, 2006; 2012). Moreover, investors are now beginning to explore emerging markets due to their diversified opportunities in terms of human capital and mineral deposits (Levich, 2001).

Apart from the above reason, another rationale is that IFRS helps organisations feel more comfortable that their investments are secured as these standards provide aggressive verification opportunities for stakeholder assessments and disclosure (Latifah et al., 2012). Having briefly explained IFRS, this study sets to discuss IFRS 7 as the dependent variable of the current study.

2.4.1 International Financial Reporting Standards 7 (IFRS 7) Financial Instruments Disclosure

International Financial Reporting Standards 7 (IFRS 7) is a mandatory financial instruments disclosure principles based-standard (Hassan et al. 2010; Kothari, 2000). The standard applies to only those companies that have financial instruments and need additional disclosures relating to risks associated with these instruments that require managerial response and sensitivity analysis (Bischof et al., 2014, IASB, 2012). The international financial reporting standards foundation has increased risk reporting requirements since 2007, when IFRS 7 was first introduced (Bischof et al., 2009). It is to be noted that this standard only applies to financial instruments of a company and not a company's entire transactions (Pasternak, 2011).

Thus, information obtained using IFRS 7 should provide stakeholders with insights into the risk management system of the company and give a better understanding of the risks associated with the company's financial instruments (Leadership, 2011). This standard came as a result of the increased complexity of the global capital market. The standard also requires companies to disclose the extent of their financial instruments risk exposure management and sensitivity analysis from the beginning to the end of their financial reporting period (Pasternak, 2011). According to the World Bank (2012),

IFRS 7 is the only avenue in financial reporting that provides the needed interactions between quantitative and qualitative disclosure in annual reports that enable users evaluate an entity's exposure to risks. This standard ensures that regulators and other users get a bigger picture of company's risk profile, which a balance sheet may be unable to disclose. Thus, the standard provides early signals for future financial crisis.

Several scholars have discussed the objections of financial statements. Lee, Walker, and Zeng (2013) argued that the principal objective of financial statements is to provide stakeholders with sufficient information on which they can base their investment and credit decisions. According to Radin (2007), IFRS 7 provides more information on risks related to a company's financial activity. Shareholders face earlier information asymmetry that relates to both financial and non-financial information disclosure in relationship to the risks a company is facing. These risks increase in complexity as the environment in which a company is operating becomes more sophisticated due to globalisation (Nobes, 2010; Zeghal & Mhedhbi, 2012). Risk information disclosure in financial statements should reduce the predicaments that shareholders face, hence, its importance (Marston and Shrives, 1991).

Similarly, International Accounting Standards (IAS) 32 (financial instruments presentation) Paragraph 11 defines financial instrument as any contract between two parties that results in the creation of a financial asset of one entity and a financial liability or equity instrument of another entity. Typical examples of financial instruments are equities and derivatives. According to Cains, Massoudi, Taplin, and Tarca (2011) derivative financial instruments have been cited as the main cause of the 2008 financial crisis. The International Accounting Standards (IAS 39) (financial

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instruments recognition and measurements) Paragraph 9 classifies derivatives as an instrument whose volume of transaction does not require initial investment for financial or credit rating of non-financial instruments and the derived amount should be contracted and liquidated within a pre-determined future period (Cains et al., 2011; PwC, 2013).

The World Bank observes that IFRS 7 requires a company to disclose the extent and nature of risks arising from financial instruments both in quantitative and qualitative terms (World Bank, 2012). According to the international financial reporting standards foundation (IFRSF), a company has to disclose for each risk category the nature of risk, the extent of exposure and the company's procedure to mitigate these risks in words (IFRSF, 2010). The quantitative disclosure exposures should clearly indicate the figures per risk and their relevance.

Risks are of different types. The separation of risk into its general and specific components has significant impact on risk assessment and IFRS compliance. Some risks threaten all entities, and some others are restricted to specific entities, while still others are typical for some group or individual entities. Furthermore, IFRS 7 requires the following disclosures in each of the five risk categories, which are 1) market risk, 2) credit risk, 3) liquidity risk, 4) general risk, and 5) financial risk (Fadun, 2013).

2.4.1.1 Market Risk

Companies need to disclose a sensitivity analysis per risk category showing in which way profit and loss and equity would have been affected by changes in the risk variable. The company should also reveal the methods and underlying assumptions used in

preparing the sensitivity analysis to be presented based on ongoing risks. In addition to this, the IFRS 7 allows a value at risk model to be used instead of the sensitivity analysis per risk as explained earlier.

2.4.1.2 Credit Risk

Companies engaging in financial instrument trading or transactions should record all their credit risk exposure and give a full description of collateral security held or issued and past due/impaired financial instruments. For instance, it should be stated when all financial instruments are held by a single custodian with an expression that, if the risk custodian defaults, all of these instruments will be impaired. A possible mitigation of credit risk is to spread the financial instruments among several custodians.

2.4.1.3 Liquidity Risk

The maturity profile and analysis of derivative and non-derivative financial liabilities, and in which way the company manages the risks associated with these liabilities should be clearly stated. Each disclosure by a company should show the maturity term and the amounts due at appropriate time. For instance, amount "X" is due in one month, "Y" is due in one year, and "Z" is due in the next three years. Furthermore, disclosure is also required by a company about how it intends to redeem these liabilities, by showing that it has a sufficient stream of cash flow to pay the liabilities when due.

2.4.1.4 General Risk

General risk has the advantage that it covers a wide field of different risks and risk-related issues as specified in the text of banks and insurance companies. Just like any other entity, financial institutions face many types of informational needs commonly

referred as general risks. This risk comes from willing or unconscious non-compliance with regulations, data manipulation, and constant bad customer service and general decisions of a financial institution during critical meetings. Every step taken by a financial is judged by its customers, investors, board of directors and other stakeholder's whose efforts mould the financial institutions image. This type of risks includes internal rules, team work and active monitoring to help identify risky behavior and put a stop to it.

2.4.1.5 Financial Risk

This type of risk discloses financial information by financial institutions individually or in groups. Financial risk provides sufficient information to users on the disclosure of financial assets at fair value, on loans receivable at fair value and whether the nature of the assets and its carrying amount has been disclosed adequately. Similar to other risks, financial institutions need to disclose such issues as the company's financial risks of business, the significance of financial instruments and whether these institutions are applying the requirements of IFRS 7 in the purchase of non-financial items. In the same vein, IFRS 7 requires a company to categorise its financial positions in the balance sheet and or in the notes into the following measurements:

1. Financial assets at fair value through profit and loss;

2. Financial liabilities at fair value through profit and loss;

3. Financial assets at amortized cost;

4. Financial liabilities at amortized cost; and

5. Financial assets at fair value through other comprehensive income.

These categorisations enable shareholders and other users of financial statements to assess how the valuation of a particular financial instrument is performed and whether these values are based on fair value or amortised cost.

The IFRS 7 uses fair value accounting as a measurement device for assets and liabilities in a company's balance sheet. Fair value is defined under IFRS as the amount for which an asset could be exchanged, or a liability settled, between informed and willing parties, in a free and fair transaction (Osisioma et al., 2014). According to Leux and Leuz (2009) fair value accounting (FVA) also called mark-to-market accounting (MTM) has a significant benefit due to the principles based transparent nature of IFRS as compared to historical cost accounting whose drawbacks include a lack of scrutiny and the sale of assets. The financial crisis of 2008 led to an intense emphasis on fair-value accounting (FVA) especially in developed economies like the United States, European Union countries and Australia. Much emphasis is also laid in banking sector and by accounting regulators around the world (Cains et al., 2011).

In addition, Lopes and Rodrigues (2007) argued that financial institutions should apply fair value accounting measurements as contained in IFRS 7 to their trading securities, futures, options and swaps appropriate to their trading operations. Changes in fair value should be registered in profits and loss accounts in the period in which they occur. This means that for operations that qualify for hedge accounting, profits and losses of the hedged instruments should be registered simultaneously with the measurement criterion of the hedged positions disclosure rule. Furthermore, there are list of requirements which is exhaustive enough for the reasonable assessment of the extent of compliance especially with regard to derivative and fair value accounting.

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The inadequacies of risk-related disclosures in annual reports of companies have attracted public criticisms since the global financial crisis in 2008. This has led to the recent attention being given to the usefulness of IFRS 7 financial instruments disclosure by companies (Oliveira et al., 2013). Of particular significance is the financial sector, which fails to disclose the magnitude of risks associated with their products and services in a transparent manner. This refusal to disclose prompted a public lack of confidence in the sector and resulted in the failure of the financial system (Arner & Taylor, 2009). With the recent promulgation of IFRS 7, however, the reporting practices of these financial institutions have greatly improved.

Financial institutions have taken advantage of the benefits in IFRS 7 disclosure and with active oversight of their respective boards, positive improvements have been recorded in both operations and risk management (Latifah et al. 2012). Yet, the transparency level of risk reporting disclosure in financial institutions witnessed after the adoption of IFRS 7 still fall short of the requirements (Bischof, 2009; PwC, 2004). This may not be unconnected with the lack of appropriate enforcement mechanisms to ensure compliance with disclosure requirements of the standards (Hodgdon et al., 2009; Oliveira et al., 2013).

According to Adedipe (2009) and Sunusi (2012), ineffective corporate governance and credit derivatives in which the investor underwrites the default event in corporate debts were at the heart of all financial crises in Nigeria. Banks and insurance companies sustained huge losses due to inadequate regulatory enforcement and regulations on the use of financial instruments. However, Nigeria was lucky because of her under developed credit culture that helped in reducing the losses (Adedipe, 2009). Adznan

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and Nelson (2014) observed that the financial crises made IFRS 7 financial instruments disclosure a must because changes in business at international level require the use of financial instruments.

Universal studies on IFRS 7 financial instruments disclosure reveal a high likelihood that managers of banks and similar financial institutions are ill-equipped to handle risk exposures appropriately. For instance, in the United States, few financial institutions have used, or are planning to use home-grown models of credit risk management (Fatemi & Fooladi, 2006). Similarly, Spanish saving banks lacked adequate skills to handle operational risks spelt out by the *International Monetary Fund (IMF)* in terms of minimal capital requirements, regulatory supervision and market discipline of banks known as the Basel II accord (IMF, 2005). Additionally, these banks have an acute shortage of efficient organisational structure for implementing sophisticated advanced operational risk information system. However, they had advanced information systems that were incapable of responding to their needs for effective risk reporting requirements (Flores et al., 2006). Furthermore, despite a good knowledge of risk and risk management, staffs of banks in the United Arab Emirates are not efficient in risk reporting (Al-Tamimi & Al-Mazrooei, 2007).

Empirical study has confirmed that Islamic banks have moderately efficient risk assessment, analysis, monitoring and identification systems (Hassan, 2009). In addition, Islamic banks are seen to predominantly employ gap analysis, maturity matching and credit rating in their disclosure practices (Ariffin et al., 2009). In comparison, the banking and financial crisis in Ireland and Iceland was attributed to inadequate risk management and corporate governance practices coupled with the

failure of financial regulators to supervise adequately these practices and enforce compliance with mandatory disclosure requirements (O'Sullivan and Kennedy, 2010).

In contrast, most senior management of financial institutions in Nigeria are not fully ready to manage liquidity risk due to inadequate knowledge of risk management and accounting skills with which to measure and manage liquidity exposures (Ahmed et al., 2014). In conclusion, a survey of leading financial institutions around the world in 2008 showed that ineffective risk governance, risk reporting and firm-wide risk expertise were major contributors to the global financial crises (Hashagen et al., 2009).

2.5   Theoretical Underpinnings

There are principally two major schools of thoughts that explain disclosure. These are regulatory (legal) and free market (economic) theories. The legal regulation school argues that effective company-level corporate governance mechanisms fulfil the mandates required by stipulated laws and regulation. The economic theory, on the other hand, suggests that company-level corporate governance in the context of financial reporting is a product of effective monitoring of managers and external auditors to enhance a company financial reporting and disclosure quality. According to the World Bank and International Monetary Fund, most countries of the world and especially developing countries have large numbers of accounting regulations covering a broad range of issues, including disclosures (World Bank, 2004, 2011, and 2012).

Admati and Pfeiderer (2009) explained that no universal agreement exists on the optimal level of mandatory disclosures that companies should provide. According to Scott (2003), the "public interest" approach assumes that capital markets are not efficient and

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thus users of financial statements with scarce resources are unable to secure adequate information about a company. Accordingly, information asymmetries, which may lead to shareholder problems due to "adverse selection", are lessening with the introduction of mandatory regulations.

Moreover, disclosures reduce company's cost of capital only if they are credible and not self-serving (Susilowati et al., 2005). Empirical studies based on the regulatory and free market perspectives rely mainly on agency theory (Bedard & Gendron, 2010). Realising that this study is guided by the legal regulation and economic perspectives, the underpinning theory for this study is the agency theory.

2.5.1 Agency Theory

Agency theory, which is widely accepted in the field of accounting, auditing and other social sciences, comes about consequent upon the separation of responsibilities between the owners (principals) of means of production and those vested with management (agents) of companies in which managers act as presiding agents on behalf of principals (shareholders and debt holders) (Berle & Means, 1933). Jensen and Meckling (1976) defined an agency relationship as a "contract under which a person(s) (principal) engages another (agent) to authoritatively perform some contractual obligation (s) in companies on their behalf" (p. x.) The expectation is that, because an agreement is mutually entered upon, the contract will bring accurate, transparent and reliable financial accounting figures in financial statements (Lennox, 2005).

Agency theory explains the relationships between the principal and agents based on the assumption that the agents will pursue the goals of the shareholders (Byrd, Parrino &

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Pritsch, 1998). However, the relationships are not without its own costs, which include monitoring costs, bonding costs as well as residual losses if eventually the contract turns to be costlier than the benefits (Jensen & Meckling, 1976).

According to Gul & Leung (2004), two principal problems are related to managers' behaviour due to the separation of ownership and control. First is the possible mis-alignment of goals between the principals and the agents. Managers are believed to be utility maximisers, who given the chance, will act in their own best interests at the expense of wealth owners or the principals. On the other hand, the principals may experience hurdles in understanding a manager's actions or inactions. In situations like this, principals are left with inadequate information about the extent of risk or profitability of their business, and are thus not certain about a manager's contributions towards the realisation of the company's objectives. This means that principals are left suffering from information asymmetry (Jensen, 1983).

Consequently, the demand for disclosure in financial reports came about as the result of the need to reduce agency conflict and information asymmetry between the principals and the agents (Healy & Palepu, 2001). The drive for disclosure to mitigate agency costs and reduce information asymmetry in financial reporting came about as a result of the demand by investors for full, transparent and reliable disclosure especially in the case in which the disclosed information is mandatory. Agency theory argues that effective corporate governance mechanisms can mitigate agency cost by reducing information asymmetry with an increase in disclosure (Karamanou & Nishiotis, 2009).m These reasons motivated both principals and management to invest in

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corporate governance mechanisms aimed at reducing agency costs that are associated with information asymmetry (Fama & Jensen, 1983; Jensen & Meckling, 1976).

Well-designed corporate governance mechanisms are believed to minimise agency costs for both the principals and managers. This is true because by making sure that agents are accountable for their actions or inactions through monitoring, managers will have to bear the agency costs based on the probability of adverse selection, shirking and moral hazards associated with discounting the value of the company by the principals (Alchian & Demsetz, 1972; Preston & McMillan, 1991).

Due to agency problems arising from the separation of ownership and control in today's globalised business setting, effective corporate governance is thought to be a necessary as an oversight mechanism for the control of management and aligning the interests of the principals with the interests of the managers. As mentioned earlier, no single universal definition of corporate governance exists. However, it may be defined as that which comprises all those procedures and activities employed by the board of directors as company's stakeholders aimed at providing oversight functions of risk and financial reporting control processes undertaken by the managers (Gramling et al., 2004).

The role of corporate governance in financial reporting is to ensure that accounting regulations are properly complied with so as to ensure the credibility of the accounting numbers in financial statements (Lin & Hwang, 2010). A properly designed corporate governance control mechanism is expected to mitigate risk and uncertainties by curbing irregularities in financial reporting because they enhance effective management monitoring of the company's financial reporting process. The board of directors in

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general and its designated committees like the audit committee and the risk management committee are seen as some of the corporate governance mechanisms primarily responsible for the management oversight function (Lin & Hwang, 2010).

Additionally, several governance attributes have been suggested to ensure that managers act in the best interests of shareholders thus mitigating agency problems. Some of these mechanisms are internal while others are external. The internal corporate mechanisms include the board of directors (Taliyang & Jusop, 2011; Ruth et al., 2011), audit committees which assist the entire board in its oversight of the financial reporting process (Gan et al., 2008; Akhtaruddin & Haron, 2010; Li et al., 2012) and risk management committee (Subramanian et al., 2009) play an important role in corporate governance.

The board of directors is responsible for the independent oversight of agent's performance which they are also holding responsible on behalf of the shareholders for their action (DeFond & Jiambalvo, 1994). Indeed, corporate governance characteristics provide the focal point of financial reporting regulations and are related to the functions of the board of directors in general and its committees like the audit committee and risk management committee.

The board and its various committees as an oversight mechanism assist investors in reducing agency problems and information asymmetry arising from opportunistic behaviour of agency by forcing managers to disclose vital compliance information. For instance, Carcello, Hermanson, Neal, and Riley Jr. (2002) have suggested that independent directors and invariably independent committee members are willing to

pay for higher-quality financial reports to protect their reputations and protect shareholder interests. The external governance mechanisms include statutory regulations in form of codes and standards, which may be national or international. The corporate governance mechanisms work together, complement or supplement each other in working towards effective disclosure in compliance with IFRS disclosure requirements.

The agency theory first came from the work of Alchian and Demsetz (1972), which they derived from economic theory and was further developed by Jensen and Meckling (1976). The focus of this theory is the separation of ownership and control in corporate organisations (Bhimani, 2008). Agency theories provide a very useful framework for governance mechanisms in the reduction of conflicts between agents and principals (Jensen, 1986). In particular, debt-financing and free cash flow serve as commitment devices in agency cost reduction available to managers in financial institutions because they make funds available for disbursements (Jensen, 1986; Kochhar, 1996).

Agency theory, according to Ujunwa (2012) and Ghabayen (2012), is the bedrock of corporate governance discourse as it explains principal and agent control relationship in companies. Decisions that impact positively on the company in general and shareholders in particular are normally taken at the committee level (Kesner, 1988).

According to DeZoort and Hermanson (2002), the audit committee is the most important committee of the board of directors, overseeing the financial reporting and audit processes of the board. The audit committee and risk management committee meet frequently with executives and other stakeholders responsible for financial

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reporting to evaluate, control and efficiently work towards reducing agency problem between ownership and agency. Carcello et al. (2006a) found that accounting expertise in audit committee and implied in the risk management committee reduced manipulation of earnings. Chang and Sun (2009) documented positive reactions in the stock market on the appointment of financial expertise and independent members in audit committee.

Large-sized boards have been cited as a more positive contributor to internal audit quality than smaller ones because the larger the board, the higher the possibility for establishing more committees like audit committee and risk management committee and the greater the possibility for independent members with financial expertise. Moreover, with more committees, resource allocation to the boards will be larger hence their ability to perform will be better. Vafeas (2005) found that audit committee size could positively influence audit committee performance.

Block holder owners can play a leading role in mitigating conflicts by means of having a seat on the board to protect their investment thus contributing to the company's decision-making process, especially with respect to financial reporting disclosure (Holderness, 2009). Coffery and Fryxell (1991) suggested that, where block investors (institutions and individuals) are not satisfied with the performance of the agents, they may be forced to sell their investments and diversify to other businesses. This may, however, result in colossal losses by the investors because the sale may involve huge discount offers.

Pope (2010) have argued that until now agency theory could not explain the negative behaviour of some directors and management as custodians of investors' wealth and the companies drive for effective disclosure of risk-related factors in financial statements. Consequently, corporate organisations are reported to encounter problems connected with the unwholesome attitudes of their boards and management almost on daily basis (Ponnu, 2008). According to Reddy, Locke, and Scrimgeour (2010), agency problems relating to conflict of interests are addressed through regulations. For instance, the SEC corporate governance code 2003 and the revised code 2011 in Nigeria are regulatory rules of conduct, with which companies are expected to comply in order to forestall governance issues.

In their study, Jensen and Meckling (1976) proposed two types of agency cost reduction mechanisms: 1) agency cost of equity and 2) agency cost of debt. Agency cost of equity reduces corporate assets costs as shares are sold to prospective investors at costs less share price. This gives investors the benefits of reaping an expected growth in company's performance overtime. To solve this issue, companies usually go for debt as a wakeup call to boost manager's performance. However, debt-holders are also looking for maximum benefits derived from these debts.

As owners of means of production, those holding more capital (e.g., block investors) will normally create bond agreements that are costly to negotiate and enforce. On this, Lee, Lev, and Yeo (2008) opined that the best way to overcome an agency problem is to tie the manager's compensation to company's share price. Unfortunately, compensation incentives have no practical application in developing countries like

Nigeria where the vast majority of businesses are owner managed, with little capital outlay and rapid block holder ownership (Ogunmuyiwa, 2013; SEC, 2011).

2.5.1.1 Agency Theory Relationship and Compliance

An Agency–Principal relationship is said to exist when a manager is hired (Agent) by an investor (principal) due to separation of ownership and control to oversee the principal's wealth for the principal's benefit (Jensen & Meckling, 1976; Fama & Jensen, 1983).

The relationship between agent and principal is contracted through a written agreement binding all parties involved. This contract agreement is today being applied in almost all modern businesses including financial institutions (Shamsuddin & Ismail, 2013), although different theories could explain some attributes of the company, Failure on the part of the contracting party led to the theory of information asymmetry, which is the main feature in agency conflict between owners and their managers.

Jensen and Meckling's (1976) agency theory model is the principal theory in corporate governance literature that substantially explains the conflict of interest between principals who bear the burden of wealth acquisition and the agents who control the operational module in the firm (Zahra & Pearce, 1989). Hung (1998) posited that agency theory is the best in educating stakeholders on the monitoring oversight role of the board of directors on the behaviour of managers in order to minimize the conflict of interest between principals and agents. Due to the capability of agency theory and power to explain the conflict of interest between actors, researchers view other theories only as complements and not substitutes for agency theory (Daily et al., 2003).

Roberts et al. (2005) observed that agency theory deals with corporate governance and boards of directors' oversight relationships and their level of significance in controlling the opportunistic behaviour of managers. Agency theory is the underpinning theory of this study because the main focus of this study is corporate responsibility and compliance with standard regulations. However, as the study is also linked with other relationships such as blockholder investments and mandatory regulation through accounting and audit rules, the study will employ other relevant models to explain other relationships.

Apart from their complementary role, the use of other models will also help to answer the call for the use of multiple theories to define corporate governance relationships (Stiles & Taylor, 2001). For example, Roberts et al. (2005) suggested the use of theoretical pluralism to explain certain phenomena in the search for empirical answers to avert the reoccurrence of the global financial crisis. As earlier stated, this study heavily relies on agency theory to guide the relationship between the study's independent variables (internal governance mechanisms), blockholder ownership and the dependent variable (IFRS 7 compliance).

2.5.2 Resource Dependency Theory

Pfeffer (1973) first developed the resource dependency theory, which was improved upon through joint effort of Pfeffer and Salancik (1978). This theory emphasises the important role played by the board of directors (BoDs) in providing accessibility to resources that enhance a company's performance, link companies with the external environment and create buffers against adverse external shocks (Daily et al., 2003; Hillman et al., 2000). The board of directors promotes organisational interlocking

directorates through their socioeconomic, political and professional networking (Johannisson & Huse, 2000; Riana, 2008).

Abdullah and Valentine (2009) argued that directors can be classified into four categories: 1) executives, 2) entrepreneurs, 3) professionals and 4) community leaders. Executives are current and former staff in executive cadres who provide expertise in specific areas of the company. Entrepreneurs are current and former senior executives and directors in other large for-profit companies that utilize their expertise on formulating business strategies, investment decisions and provide relief to business issues. Professionals are those with special skills like lawyers, bankers and insurance company representatives who provide needed support to companies in their specialised endeavours. Lastly, Community Leaders are those people in politics, university leadership, leaders in places of religious worship, and leaders of social or community organisations.

A number of empirical literature has extoled the importance of resource dependency theory in explaining corporate effectiveness (Bedard & Gendron, 2010; Cohen et al., 2008; Dhaliwal et al., 2010). According to Goodstein et al. (1994) in addition to agency theory postulations, this theory explains the effective oversight function of committees in assisting the entire board. The code of corporate governance (SEC, 2011) in Nigeria encourages the formation of committees especially audit committees, risk management committees and others for effective oversight of and positive influence on company operations.

Resource dependency focuses on suggesting a variety of ways in which companies can ensure the supply of resources that are critical for their survival and growth (Sheppard, 1995). This theory explains the details of why companies must enter into exchanges with other companies and how these companies can affect their survival and growth through demand management, particularly of interest groups such as block investors and minority shareholders upon which the companies depend for financial and other resources for support. According to resource dependency theory, companies are members of coalitions that are in a constant state of change (Pfeffer and Salancik, 1978). Control of companies in possible both internally (shareholders, managers, employees) or externally (customers, suppliers, competitors, governments, etc.)

D'Aveni (1989) argued that resource dependency theory plays an important role in explaining how independent directors in boards and committees use their connections to help in providing the needed information and expertise in ensuring IFRS compliance, which may otherwise not be possible for a particular company. Resource dependency theory also help to explain how independent directors assist the company in attracting resources by giving it the legitimacy that is needed for survival and growth.

2.6   Empirical Literature on General IFRS Compliance

This section reviews the empirical literature that has measured the level of compliance with IFRS and also examined its determinants. Both cross-country and country specific studies are reviewed.

Street, Gray, and Bryant (1999) examined the degree of measurement and disclosure in compliance with the requirements of the following IASs (IAS 2, 8, 9, 16, 18, 19, 21, 22

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& 23) revised during the comparability period of 2001. The authors' sample comprised 49 multinationals operating in twelve countries worldwide. These companies claimed to have voluntarily adopted IAS in their 1996 accounting period. The sampled company annual reports were examined independently using the revised IAS disclosure checklist developed based on an extensive review of the literature. Findings from the study revealed non-compliance with some of the standards like (IAS 2, 8, 9, 16, 18 & 19). The overall conclusion drawn was that the degree of compliance by these sampled companies claiming to have complied with the standards was inconclusive and not uniform.

Street and Bryant (2000) scrutinised the level and extent to which IAS disclosure requirements were applied by companies claiming to use them. They further identified if there any possible variances existed between companies with US listings and filings companies and companies without US listing and filings. Companies with US listing are obligated to comply with IAS required disclosure while companies with US filing were mandated to show their level of disclosure of both voluntary and mandatory items. In addition, these companies are required to identify what criteria they followed to determine the level of compliance with the disclosure requirements. Furthermore, their study examines several company attributes like size, type of industry, listing status, profitability, reference to the use of IAS in footnotes, auditor's opinion with regards to the application of IAS by the company and the method which the audit firm use to address the auditing standards complied with.

Of the annual reports of 82 sampled companies examined in 1998 using a dichotomous disclosure checklist, 11 had a US listing, 30 had a US filing and the remaining 41 were

without a US listing and filing. Moreover, in order to integrate voluntary disclosure, all the revisions in the IAS that were not yet mandatory for the financial year ended 1998 were added to the checklist in addition to the following voluntary disclosure items: disclosure items not required by IAS but required by US GAAP and disclosure items applied in prior studies frequently used by companies to benefit from full disclosure in their financial report.

The results of this study showed that the level of compliance with IAS disclosure requirement is more for companies with firms having a US listing and filling than for firms without US listing or filling. The overall compliance level for the sample were less than or equal to 0.75 percent for the following IAS: 14, 17, 19, 23 and 29. Moreover, companies without a US listing or filling reported a significant lack of compliance to the following standards: IAS 8, 12, 17, 19, 23 and 33. As regards the level of disclosure however, companies with US listings complied more with the standards than the other two groups combined.

In addition, with respect to the level of disclosure and compliance, the results recorded positive association with an audit report, which stated that the financial statements followed the guidelines as contained in the international standards of auditing and also in accordance with IAS rules. Finally, the results of the study revealed that the extent of disclosure was more for those companies that expressly stated that the financial statements were prepared in line with the requirements of IAS and an audit opinion that expressly stated that IAS frameworks were employed during the audit exercise. Other company characteristics in the study were not significant with respect to either the disclosure requirements or the level of compliance.

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Street and Gray (2002) followed the path of Street and Bryant and extended their study to cover a larger sample of companies from China, Switzerland, France, Germany, Europe and Africa. They empirically investigated the relationships between the level of compliance and four diversified company characteristics, which included type of audit firm, company's country of origin, multinational affiliation, and the size of a country's capital market in addition to those that Street and Bryant had investigated in 2000. This study's sample comprised the 279 IASCs 1999 list of IAS compliant companies.

They developed compliance checklist requirements for IAS that previous studies had reported had exhibited inadequate compliance (e.g., Street et al. 1999; Street & Bryant, 2000). These standards were for IAS 2, 4, 8, 12, 14, 16, 17, 19, 21, 22, 23, 29, 32 and 33. For each of the 279 sampled companies, two disclosure compliance indices were calculated. The first disclosure compliance index was dichotomous, giving equal weight to each IAS standard while second index, known as the partial compliance method (PC), gave equal weight to each item of disclosure and was calculated by dividing the total number of disclosed items by a company for every sampled IAS standard included in the study by the applicable disclosure.

This study's finding showed that the first disclosure compliance indexes that were weighed equally produced an overall mean value of disclosure compliance of 72%, while the second, which weighed each item equally, had an overall mean of 74%. These empirical results confirmed earlier evidence that companies in developing economies and emerging nations were more receptive to IAS than developed countries (Iddamalgoda, 1986). These results further confirmed that the level of mandatory

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compliance with disclosure requirements using the disclosure compliance indicators was positively associated exclusively with the application of IAS.

Glaum and Street (2003) investigated the level of compliance with IAS and US GAAP mandatory disclosure requirements by companies quoted in Germany's capital market in their 2000 financial period. The research comprised 200 sampled companies, with 100 companies preparing their accounts based on IAS and the other 100 based on United States GAAP. They also examined the relationships between the level of mandatory disclosure compliance and a company's attributes including size, profitability based on type of auditing standards used in the audit report, age, jurisdiction, internationality, type of industry, diversification of ownership, type of auditors and rate of growth of the companies.

The authors construct two disclosure checklists, one for an IAS disclosure compliance score and the other to measure compliance with US GAAP disclosure requirements. The US GAAP comprises 144 disclosure requirements while the IAS has 153 disclosure required items in the checklist. The results show that the level of compliance ranged from 0.40 to 1.00 with the average being 0.83. Companies that report based on IAS recorded 0.81 as the average with a minimum of 0.42 and maximum of 1.00. For the 100 companies that apply US GAAP, the average level of compliance range was 0.87 with a minimum of 0.5 and a maximum of 0.99.

The authors also reported that the level of compliance with the two accounting standard frameworks (IAS and US GAAP) disclosure requirements positively associated with being cross-listed on the US capital markets, with being audited by a Big 4 audit firm

and with an audit report that made reference to the application of international standards of auditing (ISA) or United States generally accounting and auditing standards (US GAAS). They did not find the other characteristics as being associated with the level of compliance for both IAS and US GAAP.

Ali, Ahmed, and Henry (2004) examined the level of mandatory compliance with disclosure requirements of 14 national accounting standards for a large sample of companies in India, Pakistan and Bangladesh. The research employed corporate attributes known to have a positive influence on the degree of compliance with these national standards. The authors used a unique scoring system to develop a total compliance index (TCI) for each sampled company. Findings revealed significant variation in total compliance with disclosure requirements across countries and different jurisdictional accounting standards. Compliance levels were found to be positively related to company size, profitability and multinationality. However, no relationship was found between compliance and leverage levels and compliance with the quality of external auditors.

Renders and Gaeremynck (2007) empirically observed whether early adoption of International Financial Reporting Standards (IFRS) leads to increased disclosure through reduction in accounting methods. They sought to find out whether IFRS adoption results in the loss of private benefits for majority shareholders and executive management using an enlarged sample of 1,563 European Union (EU) member companies including those from Austria, Belgium, Denmark, France, Germany, Italy and the Netherlands. These countries are allowed to choose either IFRS or local GAAP

to prepare their domestic and foreign accounts in 2001. Of the total number of companies in the sample, 110 (7%) voluntarily reported in accordance with IFRS.

The study further sought to investigate the impact of laws protecting investors and corporate governance recommendations on the early adoption of IFRS. With that in mind, the authors developed two indices. These were the corporate governance index (CGI) to measure the range of corporate governance in each country based on the OECD principles of corporate governance (1999). The second was corporate governance codes (CGC) published by the European Commission in 2002. The researchers used a dummy scoring method of Yes (1) if a principle is present in a country code or No (0) if otherwise. Their finding showed that, unlike Austria that has no code of corporate governance in 2001, Germany had the highest score followed by Belgium.

Sejjaaka (2007) studied corporate mandatory disclosure in financial institutions, specifically twenty-one banking and fourteen insurances listed companies, in Uganda. The results revealed significant correlations between mandatory disclosure and auditor type, multi-nationality, size and age of the company. However, an insignificant correlation was observed between disclosure and leverage, disclosure and return on equity and disclosure and liquidity. Moreover, when the results were regressed against the dependent variables, auditor type and firm age were found to be positive predictors at a 1% level of significance. The authors found the overall level of disclosure for the sector was extremely poor on all the characteristics, which was attributed to weak regulatory enforcement. This finding confirms the recent empirical evidence of weak or inadequate regulatory enforcement in developing countries (Misirlioglu et al., 2013).

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Tsamenyi, Enninful-Adu, and Onumah (2007) based on shortages of literature on corporate governance in developing countries sought to examine corporate governance practices of 22 Ghanaian listed financial and non-financial companies. The study was for a period of two years (2001 & 2002), and the researchers use the disclosure scoring technique to analyse the results. They further examined the extent to which factors such as ownership structure, share dispersion, firm size, and leverage influenced disclosure practices of the listed firms. Findings from the study, which were consistent with prior studies in other developing economies, revealed a low level of disclosure in Ghanaian listed companies. Furthermore, ownership structure, ownership dispersion and firm size (measured as total assets and market capitalization) all had significant positive effects on disclosure. However, the correlation between leverage and disclosure was not significant.

Hossain (2008) empirically investigated the extent of association between company-specific attributes and total disclosure of both mandatory and voluntary requirements of listed banks in India using a total of 184 items. Findings from the study revealed that Indian banks are very much compliant with the mandatory disclosure requirements with an average score of 88% for mandatory and 25% for voluntary disclosure. The findings of the study also indicated positive significance for firm size, profitability, board composition, and market discipline variables but were not significant for company age, complexity of business and assets-in-place.

Kent and Stewart (2008), using a sample of 965 Australian listed companies with 30th June as financial year end 2004, surveyed the expected impact of applying Australian equivalents of International Financial Reporting Standards disclosure with effect from

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2005. The authors used two dependent variable dimensions to ascertain the extent of disclosure resulting from the switch to AIFRSs. The first used certified public accountant's framework to calculate the number of sentences as one of the preferred units of measurement, which explains the transition management to AIFRSs. This framework has the benefit of detecting key deviations in accounting policies expected to arise from adoption of AIFRSs (CPA Australia, 2004). The second was an index to measure the number of changes to accounting policies in the notes to the accounts with respect to the transition to AIFRSs. Findings from the study provided sufficient proof of the relationship between superior governance mechanisms and higher level of financial reporting disclosure.

Al-Shammari, Brown, and Tarca (2008) studied level of compliance with IAS disclosure requirements by companies registered in six oil GCC member states (Bahrain, Oman, Kuwait, Saudi Arabia, Qatar and United Arab and its associated factors. In order to measure the level of mandatory IAS disclosure requirements, the authors designed a compliance checklist of 14 related and relevant standards to the study environment (e.g., IAS1, 10, 14, 16, 18, 21, 23, 24, 27, 28, 30, 32, 33 and 37). The study used a checklist of 247 items of which 208 were related to IAS disclosure requirements, and the rest were measurement requirements. The researchers examined 137 sampled companies over a period of eight years from 1996-2002 with a total of 436 company-year observations.

The findings show that all through the years, average level of compliance was 75%, and 69% for disclosure requirements for the entire GCC. The study also found level of compliance to be increasing over time with the company overall average compliance

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level increasing from 64% in 1996 to 82% at the end of the study period. Furthermore, the study found variances in compliance levels with mandatory IAS disclosure requirements between the GCC member states, despite their cultural similarities and economic ties.

Hodgdon, Tondkar, Adhikari, & Harless (2009) extended the study by Al-Shammari et al. on the determinants of IFRS compliance by discerning the level of compliance over two-year period 1999 and 2000. The researchers use pooled OLS data on first difference to control for company specific effects that may impact on the level of IFRS compliance. The aim was to probe the impact of auditor choice on the level of IFRS compliance on the assumption of strict exogeneity of auditor choice.

The authors develop prudent models by controlling for those variables found significant in determining IFRS compliance. These included the use of ISA, US listing, multi-nationality, company size, leverage and profitability. A total number of 100 non-US listed companies claiming compliance with IFRS disclosure requirements were examined. The study uses both dichotomous and unweighted disclosure techniques to measure IFRS compliance with the disclosure requirements in the annual report of the sampled period. Findings from the study showed improvement in IFRS compliance in the study period. Compliance revealed positive relationship with auditor type being a Big 4 audit firm.

Moreover, the results using first difference of the two years' panel data indicated the choice of auditor was related positively to IFRS compliance. However, company size was no more significant when company's specific effects were controlled. With respect

to the other explanatory variables, the significance of the respective coefficients changes depended on the type of model employed. The authors concluded that their study discovered positive support for the strict exogeneity assumption relationship between auditor size and IFRS compliance. The result also provided strong evidence of the importance of auditor choice for IFRS compliance. The study further highlighted the importance of developing institutional mechanisms such as enforcement, auditing or corporate governance structures to ensure compliance with disclosure requirements of IFRS.

Karamanou and Nishiotis (2009) sought to determine the extent to which companies increase value based on optimal accounting standards. The study's initial sample comprised 1,072 companies extracted from worldwide reports, which applied IAS for the 1988 and 2002 accounting years. Only a total of 59 companies met the study's criteria. For those companies without an adoption announcement, the authors identified companies with available data on DataStream and eliminated companies in the sample that used IAS before or during the year of switch to IAS that provided a total of 176 IAS switchers.

These 176 adopting companies were used for comparison with the 59 sampled companies with adoption announcements. The researchers further used size, sales, analysts forecast accuracy and Tobin's "Q" to capture asset value. ROA was used to compute earnings prior interest and taxes by total assets, TURN measured net sales or net income by overall assets, PROF was gross revenue by net sales or profits while LEV was total liability by entire assets, all at the fiscal year-end prior to adoption announcement. The research used the OLS market model coefficient in the pre-

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announcement period across the sampled companies and employed t-tests for the null hypothesis.

Findings from the study indicated positive and significant relationship with IAS abnormal returns announcement. This result compared favourably to the two-year period before due to reduced cost of capital. The result provided evidence that IFRS adoption enhances disclosure. It similarly stresses the value of increased disclosure in the absence of associated regulations.

Apostolou and Nanopoulos (2009) focused on the benefit arising from implementation of IFRS by Greece companies, investors and regulators on the use of extensible business reporting language (XBRL) technology. The study further examined the corporate governance and accounting disclosure practices of listed companies in that country using XBRL technology. The authors recorded an improvement in the level of accounting quality and in the quality and content of financial reports.

Conclusively, the study's finding suggested substantial conclusions related to the perceived benefits of XBRL on the improvement of financial reporting and corporate governance mechanisms. The academic literature on corporate governance and accounting disclosure in emerging nations as the XBRL framework is connected with adherence to other regulations such as IFRS and US-GAAP, in order to facilitate capital market trading with Europe, America and the rest of the world.

Al-Akra, Ali, and Marashdeh (2009) considered the development of Jordanian accounting regulations with a particular emphasis on the principal environmental

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factors that influence it. They further examined the path of accounting in Jordan since the early days of the nineteenth century in order to gain a better understanding of Jordan's present accounting practices. Issues of interest were Jordan's future growth tendencies that were analysing with respect to Jordan's accounting environment including the influences of political, economic, legal and cultural diversity on the development of that country's accounting landscape. The study further looked at Jordan's recent move towards the full adoption of IFRS that led to the privatization of that country's listed companies which, in turn, led to a significant improvement in disclosure quality. Similarly, the adoption of IFRS further led to a switch from code-based law to the properties of a common-law country with a strong capital market presence that competes in the globalised business arena and public disclosure.

However, Al-Akra et al. (2009) contended that inadequate taxation accounting and auditing knowledge in Jordan might act as a disincentive to the successful implementation of IAS/IFRS. This, according to the researchers, discourages foreign and domestic investors from investing in the Amman Stock Exchange.

Al-Akra, Eddie, and Ali (2010) encompassed prior studies and further examined how the privatization program launched in 1997 influenced the level of IFRS mandatory compliance with disclosure requirements. The researchers frame of reference included corporate governance reform, accounting disclosure regulations, and changes in ownership structure of a sample of 80 listed Jordanian non-financial companies for the period from 1996 to 2004. Employing the multiple regression technique, two different disclosure checklists were used. For 1996, the level of compliance was measured using an adopted checklist developed by Epstein and Mirza (1997). The 2004 level of

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compliance used a disclosure checklist developed and made available by PricewaterhouseCoopers (2004).

The findings of the study were several. Using different cross sectional regression models, the study showed the mean level of IFRS compliance with disclosure requirements in 2004 was 79%, far greater than that of 1996 which was 55%. Second, the mandatory disclosure used in the study included the existence of an audit committee on board, board size, auditor type, liquidity and gearing. The authors concluded that IFRS compliance with disclosure requirements showed significant improvement due to privatisation especially as a result of reform on disclosure regulations and regulations on mandatory audit committees.

Alanezi and Albuloushi (2011) considered the association between the existence of a voluntary audit committee and the level of mandatory compliance with IFRS disclosure requirements. The study employed 68 sampled non-financial companies listed on the Stock Exchange of Kuwait (KSX) for financial period ended 2007. A self-constructed disclosure checklist containing 199 items required by 18 IFRS standards was used to measure the level of compliance with disclosure requirements. The findings from the study concluded that the level of compliance ranged from 48% to 96% with an average of 72%. The result suggested that existence of audit committee was positively and significantly associated with the level of compliance with IFRS disclosure requirements.

Additionally, the study suggests that leverage positively was associated with the level of compliance, while profitability had a negative association. However, for both

leverage and profitability, the level of significance was weak (at the 10% level). Ownership diffusion, company age and size, were found not to be statistically significant determinants of compliance level. The study concludes that evidence exists of non-compliance with IFRS disclosure requirements by companies that claim to have adopted the accounting framework. Moreover, of the variables studied, auditor types, home country of the reporting entity and companies with a US listing positively enhances the level of compliance. Company size, leverage, profitability and type of industry have very little explanatory power.

Liu, Yao, Hu, & Liu, (2011) examined the impact of IFRS adoption on accounting quality in China, a regulated economy in which a substantial part of IFRS accounting standards became mandatory for listed companies in 2007. The authors examined the accounting quality of only firms that were mandated to adopt the new accounting framework for the period from 2005 to 2008. The empirical results using panel data indicated improvement in the accounting quality with decreased earnings management and increased value relevance of accounting numbers in China since the initial adoption period. The regression results showed that firms audited by the Big 4 before IFRS, which had higher quality before the IFRS adoption, evidenced only a small improvement. Further analysis confirmed the changes to be a result of the change in standards and not due to changes in economic conditions.

Juhmani (2012) used a self-constructed checklist of mandatory IFRS disclosure requirements to examine the extent of the association between disclosure and corporate attributes. These included size, profitability, leverage, firm age and audit firm size included the annual reports of 41 Bahraini listed companies in 2010. The findings of

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the study using multiple regression and showed that company size and audit firm size and a significant and positive relationship with level of mandatory IFRS disclosure. However, profitability, leverage and company age were found to be insignificant in explaining the level of mandatory IFRS disclosure. The results showed the benefit of size, financial resource capability and reduced agency costs through adequate disclosure. The finding is consistent with the assumption that clients of large audit firms disclose more information in annual reports. The outcome implies that large audit firms deal with multinational companies throughout the world, hence their audit functions are influenced by international accounting and auditing standards.

Agamah (2013) examined the extent to which companies listed on the Nigerian Stock Exchange (NSE) complied with corporate governance and risk management principles. The study was based on the assumption that directors of public companies will want their companies to be seen as good corporate citizens as managers of assets directed at achieving corporate objectives. These objectives, which are enshrined in the company's memorandum and articles of association, are established by corporate shareholders. The study employed secondary data from 35 listed non-financial companies sourced from the corporate affairs commission (CAC) from 2007-2011. Closed-ended questionnaires were used to elicit response from 113 randomly selected respondents of which 25 were completed and returned. Pearson's Correlation coefficient was employed to determine the degree of correlation between the level of responsiveness and the extent of compliance with corporate governance and risk management principles.

The study's finding showed a high level of awareness of the corporate governance and risk management principles among the sampled companies studied. Other findings

suggest that non-executive directors are better placed to monitor and control executive conduct because of their ability to bring in an independent, objective and external perspective to the company than executive directors. Similarly, financial transparency and disclosure have been found to be the most critical factors in the investment decisions of emerging capital markets.

Finally, the study observed that less than 46% of the sampled companies held board meetings of at least four times per annum as prescribed by the SEC. This shows the ineffectiveness of the board and its committees in driving the process of creating value for shareholders. This also means that no sound risk management framework exists that will ensure the integrity of financial information and records and accountability to shareholders.

Other studies have also looked at compliance. For example, Yiadom and Atsunyo (2013) surveyed the extent of compliance of 31 Ghanaian listed companies using correlation and multiple regression models. The result showed an overall mean compliance level of 85.8% with size, profitability, auditor type, internationality and industry type being associated positively with IFRSs compliance. Santos, Ponte, and Mapurunga (2013) studied 28 encompassing standards using 638 mandatory disclosure required items of all the 366 Brazilian non-financial companies. Their findings showed an overall low level of disclosure compliance but with significant positive correlations between compliance level and company characteristics of size and being audited by a "Big 4" audit firm.

Al-Shammari (2014) empirically tested corporate attributes emphasizing company size, leverage, liquidity, profitability, complexity, auditor type and industry type with corporate risk disclosure. Using manual content analysis of 109 Kuwaiti listed non-financial companies and employing multivariate regressions analysis, the author found that corporate risk disclosure (CRD) was positively associated with size, liquidity, and complexity and auditor type. Similarly, this author concluded that agency and signalling theories consistently impacted the relationship between CRD and characteristics such as leverage and profitability.

Lipunga (2014) investigated the risk disclosure level of Malawian commercial banks using a risk disclosure index based on the 34 items from the Basel 11 disclosure requirements. These requirements are divided into six distinct categories. They include: risk related board and management personnel, market risk, credit risks, liquidity risks, capital management and operational risks and other risks. The findings from the regression analysis reveal high disclosure among banks with an average disclosure score of 82%. Moreover, credit risk, liquidity risk and market risk scored the highest disclosure of 100% by categorization. Capital management and operational risk, other risks and board and management structure scored 74%, 69% and 61% respectively. However, the regression result showed no influence between risk disclosure and profitability of the sampled banks.

Similarly, Oyerogba, Solomon, Olaleye, and Adesina (2014) investigated the effect of disclosures on performance based on operational risk, financial risks and strategic risks in the published financial statements of listed companies in Nigeria. The author used a questionnaire research design on sample 258 risk managers of listed companies in

Nigeria. The study's findings revealed that operational risk, financial risks and strategic risks satisfactorily explained the performance of listed companies in Nigeria as confirmed by a coefficient of determination (R^2) of 66%.

Ballas, Sykianakis, Tzovas, and Assilakopoulos (2014) investigated the quality of financial statements of 58 Greek listed non-financial companies. The study employed IFRS disclosure compliance checklist requirements on the 2006 and 2008 annual reports. Two methods of disclosure, the dichotomous and the partial compliance techniques, were employed to test univariate and multivariate regression models. The findings of the study documented that institutional ownership and "Big 4" international audit firms were positively associated with the rate of compliance. However, no association was observed with profitability, leverage and company size. These findings, therefore, highlight the importance of institutional ownership and auditing as corporate regulatory mechanisms that can influence positive compliance consistent with the call by Hodgdon et al. (2008, 2009).

Khlif and Hussainey (2014) conducted a meta-analysis of 42 empirical studies to investigate whether findings in these studies were affected by random error or risk disclosure. The findings from the meta-analysis revealed that risk reporting is affected by the legal system, corporate size, and disclosure regime and industry type while leverage ratio measurement moderated the association between the leverage ratio and risk disclosure. The study further found industry type and uncertainty avoidance level affected the relationship between profitability and risk disclosure. The authors also found industry type to strongly moderate the relationship between risk factors and risk disclosure.

Ojeka, Iyoha, and Asaolu (2015) empirically investigate the impact of audit committee financial expertise on the financial reporting disclosure quality of 15 listed banks in Nigeria for the 10 years from 2003 to 2012. Variables of interest in the study included reliability measured by total accrual quality and relevance proxy by audit report lag. The authors used correlation coefficients, ordinary least squares and panel least squares as tools of analysis. Controlling for the effect of firm age, firm size, audit committee size, type of audit firm and audit committee meeting frequency, they found that financial expertise had a positive and significant impact on financial reporting quality in Nigeria. This means that listed banks in Nigeria complied with the reporting requirements of IFRS by producing reliable and relevant financial reports to shareholders and other interested parties to enhance their decision making.

Htay and Salman's (2015) recent study explored risk information disclosure in the annual reports of five Malaysian listed banks from 2002 to 2011. The authors concentrated on operational and liquidity risks for which prior researchers had found positive results (Abu El Haija & Al Hayek, 2012; Gregoriou, 2009; Hain, 2009; Helbol & Wagner, 2006). Using a modified disclosure checklist of 25 operational and 40 liquidity risk items developed by Basel 11, the study showed an increase in the two risks in the aftermath of financial crisis. These findings should be of interest to regulatory authorities in their efforts to mitigate a repeat of 2007 crisis and are also of interest to analysts attempting to advise their clients on patterns of risk disclosure information to help them in making sound business decisions.

Aminuzzaman, Bakar, and Islam (2015) reviewed the empirical literature on mandatory compliance with IFRS disclosure requirements by listed enterprises around the globe

and made a comparison with that of Bangladesh since IFRS inception in 2009. The findings from their study reported poor compliance due to structural weaknesses of both government regulatory bodies and the accounting professional bodies in Bangladesh. However, a positive influence in compliance with disclosure requirements related to some corporate attributes (age, size, profitability and international audit firm) was observed. This study emphasised the importance of regulatory enforcement and audit as highlighted by Hodgdon et al. (2009) and confirmed the mixed findings of empirical results in disclosure by other researchers (Amoako & Asante, 2012; Hussain, 2014; Street & Bryant, 2000).

Andrew (2015) examined both mandatory and voluntary disclosure as a means to enhance the value of the stocks of 30 listed companies on the Nairobi Securities Exchange (NSE) from 2007 to 2011. The study specifically analyzed the effect of profitability, leverage, liquidity and company size moderated by industry competitiveness on the level of corporate International Financial Reporting Standards (IFRS) disclosure. The findings of the study using multivariate regression analysis showed that profitability, liquidity and company size had positive and significant effects on the International Financial Reporting Standards disclosure level. However, leverage had no effect on IFRS disclosure level.

Shehu and Masunda (2015) conducted a meta-analysis study of literature related to IFRS compliance topics from 2005 to 2014 from leading academic journals and assessed the focal areas of these study. The findings of these study using 15 articles revealed a host of benefits in IFRS adoption. However, challenges remain in developing economies such as Nigeria including cultural issues, legal impediments, political

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influences, and training needs with respect to IFRS requirements. The study concluded that many developing economies lacked the requisite skills and competence to understand fully the operation of International Financial Reporting Standards (IFRS).

Abdullah and Ku Ismail (2015) examined the relationship between the existence of risk management committee (RMC), its characteristics and the extent of information on hedging activities disclosure in the annual reports of companies listed in Bursa Malaysia main market. Using two separate statistical models of 32 disclosure check lists comprising mandatory and voluntary disclosure scores, the study found that, although existence of RMC was positive with respect to the disclosure of hedging information, the relationship was not significant. However, RMC characteristics including independence and meetings had a significant influence.

Similarly, Abdullah1, Ismail and Isa (2015) examined the relationship between Risk Management Committee (RMC) characteristics and the extent of hedging activities disclosure within the financial statements of the Malaysian listed firms. The authors examined the relationships between RMC size, independence, RMC meeting, RMC gender diversity and RMC training. The findings of the study using regression analysis showed that RMC meetings positively and significantly influenced disclosure while RMC independence significantly and negatively influenced the extent of hedging activities information disclosure.

Hassan (2015) investigated firm attributes from the perspective of structure, monitoring, performance elements and the quality of earnings of listed deposit money banks in Nigeria. The study adopted a correlational research design with balanced panel

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data of 14 banks as the study sample using panel data and employing multiple regression as a tool of analysis. The analysis revealed that the pre-adoption period showed no impact on the selected firm attributes on earnings quality. However, further analysis disclosed that firm attributes such as bank size, leverage, liquidity, profitability and bank growth) had a significant influence on earnings quality of listed banks in Nigeria after the adoption of IFRS.

Uyar, Kilic, & Gökçen, (2016) investigated the compliance level of Turkish firms with international accounting standards (IAS) and international financial reporting standards (IFRS) using factors that might impact positively the adoption level of firms with IAS/IFRS. The findings of the study using panel data on a comprehensive questionnaire survey found listing status, staff training, foreign ownership, and firm size were significant determinants of IAS/IFRS compliance, whereas profitability and leverage were not.

2.6.1 Empirical Literature on IFRS 7 Compliance

This section specifically reviews literature with respect to IFRS 7 financial instruments disclosure requirements both in Nigeria and across the globe, which are arranged in chronological order.

Bischof (2009) observed the level of IFRS 7 compliance with the disclosure requirements by 171 banks from European countries for a period of two years 2006 and 2007 using first-time disclosure quality over a total of 342 financial statements. The findings from the study revealed an increase in disclosure quality in both financial

statements and risk reports with the focus being on credit instead of market risks. The finding attributes variations to regulatory enforcement typical of European economies.

Amoako and Asante (2012) examined the extent to which listed banks in Ghana complied with IFRS 7 financial instruments disclosure requirements. The study uses a mandatory disclosure index based on a self-constructed checklist for six incorporated and listed banks in Ghana. The findings of the study revealed a high degree of compliance with IFRS 7 disclosure requirements. The authors attributed the compliance rate to the enforcement of the standards, hence recommending their continued enforcement to ensure absolute compliance.

Pucci and Tutino (2013) studies disclosure with the aim of evaluating the transparency of IFRS as highlighted by the IASB as regards market risks with emphasis on interest rate, currency and price risk disclosure and the relevance and effectiveness of IFRS 7 financial instruments disclosure requirements as shown in notes of the annual reports of banks. Content analysis methodology were employed on a sample of 17 Italian listed banks from 2008-2010. The study's findings show appreciable improvement of market risk disclosure in both qualitative and quantitative financial reporting using IFRS 7 financial instruments disclosure as the sampled banks substantially complied with the requirement of the standard when compared with previous year. However, inadequate compliance was observed on sensitive items of disclosure that the sampled banks deemed too sensitive to disclose to the public.

Jonker, Maroun, Joosub, and Segal (2013) examined IFRS 7 disclosures of 29 South African listed firms for the four-year period from 2008 to 2011 to determine if listed

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firms were enhancing their compliance with the requirements of the IFRS and whether compliance with IFRS 7 was positively correlated with beta. The study found that listed firms disclosed more financial risk related information in their financial statements. However, this information did not translate into meaningful information for users. This indicates that financial information preparers need to consider carefully how to better structure financial reports to enhance their utility.

Jobair, Hossain, and Ahmed (2014), employing a self-constructed checklist of IFRS 7 disclosure items in annual report and financial statements of six specialized Bangladeshi banks in 2010, examined the extent of their compliance. The results of their content analysis revealed modest compliance of 55%. This contrasted sharply with Amoako and Asante (2012) findings who recorded a 98.2% compliance for commercial banks in Ghana but supported was by Hossain (2014) who report a 61.36% compliance rate by nationalized banks in Bangladesh. Similarly, Street and Bryant (2000) documented a compliance rate of 75% or less in the United States. This results showed that variations in implementation and compliance based on the type and complexity of banking operations and the level of country's incentives and enforcement were present.

Adznan and Nelson (2014) investigated financial instruments disclosure practices (FID) with respect to revised Malaysian corporate governance code of 2012 among 319 Malaysian listed companies for their compliance level. The findings of the study indicated that companies complied with MFRS 7 in part, though companies omitted several requirements. Further results indicated that audit committee independence, internal audit independence (out-source) and audit fees were positively and significantly associated with FID. Hence, these results suggest that effective corporate

governance may have some influence on the extent of disclosure level among companies.

Bischof, Daske, Elfers, and Hail (2014) discerned the effect of heterogeneous regulations on the disclosure behaviour of European financial institutions based on two attributes. These were: 1) the level of enforcement of risk disclosure regulation and 2) adherence to IFRS 7 securities law and Basel 11 regulations. The study's findings a using OLS panel regression score over the years from 2006 to 2009 revealed that financial institutions generally increased their risk disclosure based on Basel 11 in countries in which regulators have power and resources and are less involved in oversight of their securities market. Surprisingly however, the result showed an improvement in market liquidity around Basel 11 but not around IFRS 7. This study's findings supported the recent calls of regulatory bodies around the world on the need for harmonized financial supervision enforcement on disclosure by financial institutions particularly in the European Union and elsewhere around the world.

Atanasovski (2015) assessed the quality of disclosures related to financial instruments provided in the annual financial statements of Macedonian listed companies using a self-constructed disclosure index. The author specifically investigated factors that have the potential to influence the quality of these disclosures in accordance with IFRS 7 requirements. The study's findings using regression analysis of independent variables such as size, industry, type of auditor engaged, ownership concentration, profitability and leverage revealed that the level of compliance with IFRS 7 requirements was related to the type of auditor engaged and ownership concentration in the investigated companies.

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Atanasovski, Serafomoska, Jovanovski, & Jovovski (2015) evaluated the quality of risk reporting practices of Macedonian listed entities and provided empirical evidence on the level of IFRS 7 compliance requirements. Using a self-constructed disclosure index comprising 22 items, the authors ran a regression analysis with firm size, industry, and type of auditor, ownership concentration, profitability and leverage as independence variables. The authors found a 66.7% level of compliance on risk information disclosure, type of auditor and ownership concentration but without any influence observed on the degree of IFRS 7 compliance on firm size, profitability and industry.

Sarea and Al-Dalal (2015) examined the level of compliance with 10 IFRS 7 disclosure requirements by 21 listed companies in Bahrain in 2013. The authors found variations in compliance level by industry with the investment sector having the highest and the insurance industry having the lowest in terms of IFRS 7 standards disclosure requirements. The authors found differences in compliance between companies in the same sector.

Table 2.1 on the next page provide a summary of the results of empirical studies on the effect of audit committee and risk management committee characteristics on IFRS 7 disclosure of Nigerian financial institutions.

Table2.1

Summary of empirical studies on IFRS and Corporate Governance characteristics

S/N	Author(s)/ Year of Publication	Country & sample	DV & IVs	Objective(s)	Findings/Results	Analysis tool
1	Bischof (2009)	171 banks from European countries	IFRS 7 compliance: credit & market risks	Examine IFRS 7 compliance with disclosure requirements using the first time disclosure quality of 342 financial statements	The study reveals an increase in disclosure quality in both financial statement and risk reports with focus being on credit instead of market risks	Disclosure requirements using content analysis
2	Al-Akra, Eddie, & Ali (2010)	80 non-financial Jordan listed companies	Level of disclosure with IFRS: board composition, board size, presence of audit committee, government, foreign, institutions & individual ownerships, age, net sales, leverage, gearing, liquidity, profitability, auditor type, listing status, industry	Examine how privatization program of 1997 influences IFRS mandatory compliance	Level of IFRS compliance with disclosure requirements has increase from 55% to 79%	multiple regression technique
3	Amoako & Asante (2012)	Six listed banks in Ghana	IFRS 7 financial instruments disclosure:	Examine the extent to which listed banks in Ghana comply with IFRS 7 financial instruments disclosure requirements	They found a high degree of compliance with IFRS 7, though not total compliance.	Self-constructed checklist

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Table 2.1 (continued)

S/N	Author(s)/ Year of Publication	Country & sample	DV & IVs	Objective(s)	Findings/Results	Analysis tool
4	Juhmani (2012)	41 Bahraini listed companies in 2010	Mandatory IFRS disclosure: company size, audit firm size, profitability, leverage, company age	Examine the extent of association between disclosure and corporate attributes in the annual report	shows company size and audit firm size to have significant positive relations with IFRS disclosure while profitability, leverage and company age insignificantly explain mandatory IFRS disclosure	multiple regression technique
5	Pucci & Tutino (2013)	17 Italian and 8 worldwide listed banks	IFRS 7 compliance: market (interest, price and currency risks)	Distinguish different risk mgt. approaches, depth of disclosure of risk mgt. provided and of the position and size of each of the sampled banks risk disclosure in the annual reports	Show the use of different approaches and different risk management models: Integrated, Holistic, Risk Appetite, Dualistic, Risk Tolerance and others not disclosed by the sample companies with substantial compliance.	Content analysis methodology

Table 2.1 (continued)

S/N	Author(s)/ Year of Publication	Country & sample	DV & IVs	Objective(s)	Findings/Results	Analysis tool
6	Yiadom & Atsunyo (2013)	31 Ghanaian listed companies	Extent of compliance: size, profitability, auditor type, internationality and industry type	Examine the extent of compliance of 31 Ghanaian listed companies	The result showed an overall mean compliance of 85.8%	Correlation & multiple regression models
7	Jonker, Maroun, Joosub, & Segal (2013)	29 South African listed firms (2008-2011)	IFRS 7 compliance & beta	Determine if listed firms are enhancing their compliance with IFRS	Found that listed firms disclose more financial risk related information	273 financial instrument disclosure checklist & t-tests
8	Jobair, Hossain, & Ahmed (2014)	6 specialized Bangladeshi banks	IFRS 7 disclosure	Examined the extent of compliance of six specialised Bangladesh banks	Findings revealed a modest compliance of 55%.	Content analysis
9	Lipunga (2014)	Malawian commercial banks	IFRS 7 risk disclosure level: credit risk, liquidity risk, market risk, board & management structure & profitability	Investigates risk disclosure of Malawian commercial banks using a risk disclosure index based on 34 items Basel 11 disclosure requirements	Findings revealed high disclosure among banks with an average disclosure score of 82%	Regression analysis

Table 2.1 (continued)

S/N	Author(s)/ Year of Publication	Country & sample	DV & IVs	Objective(s)	Findings/Results	Analysis tool
10	Bischof, Daske, Elfers, & Hail (2014)	European financial institutions (2006 – 2009)	Level of enforcement of risk disclosure: market liquidity	Examine the effect of heterogeneous regulations on disclosure of European financial institutions & level of enforcement of risk disclosure regulation and adherence to IFRS 7 securities law and Basel 11 regulation	Findings revealed that financial institutions generally increase their risk disclosure based on Basel 11 in countries where regulators have power and	OLS panel regression score
11	Adznan & Nelson (2014)	319 Malaysian listed firms	IFRS 7 & audit committee independence, internal audit independence, audit fees	Investigate the IFRS 7 practices (FID) & revised Malaysian CG code of 2012	Indicated that firms complied with MFRS 7 with omissions	25 disclosure checklist, unweighted index
12	Atanasovski (2015)	116 Macedonian listed companies	IFRS 7 & size, industry, type of auditor engaged, ownership concentration, profitability and leverage	Assess quality of disclosures of financial instruments in financial statements	Revealed that the level of compliance with IFRS 7 is related to type of auditor & ownership concentration	Checklist using regression analysis

Table 2.1 (continued)

S/N	Author(s)/ Year of Publication	Country & sample	DV & IVs	Objective(s)	Findings/Results	Analysis tool
13	Atanasovski et al., (2015)	116 Macedonian listed entities	IFRS 7 compliance & size, industry, and type of auditor, ownership concentration, profitability and leverage	Evaluate the quality of risk disclosure practices	Found a 66.7% level of compliance on risk, type of auditor and ownership concentration only	22 self-constructed disclosures using regression analysis
14	Sarea & Al-Dalal (2015)	21 listed firms in Bahrain	IFRS 7 disclosure & three financial sub-sector	Examine level of compliance with IFRS 7 by listed firms in Bahrain Bourse	The level of compliance varied by industry and the highest being investment industry and the lowest being insurance industry	Compliance checklist of 10 items
12	Atanasovski (2015)	116 Macedonian listed companies	IFRS 7 & size, industry, type of auditor engaged, ownership concentration, profitability and leverage	Assess quality of disclosures of financial instruments in financial statements	Revealed that the level of compliance with IFRS 7 is related to type of auditor & ownership concentration	Checklist using regression analysis

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Table 2.1 (continued)

S/N	Author(s)/ Year of Publication	Country & sample	DV & IVs	Objective(s)	Findings/Results	Analysis tool
13	Atanasovski et al., (2015)	116 Macedonian listed entities	IFRS 7 compliance & size, industry, and type of auditor, ownership concentration, profitability and leverage	Evaluate the quality of risk disclosure practices	Found a 66.7% level of compliance on risk, type of auditor and ownership concentration only	22 self-constructed disclosures using regression analysis
14	Sarea & Al-Dalal (2015)	21 listed firms in Bahrain	IFRS 7 disclosure & three financial sub-sector	Examine level of compliance with IFRS 7 by listed firms in Bahrain Bourse	The level of compliance varied by industry and the highest being investment industry and the lowest being insurance industry	Compliance checklist of 10 items

Table 2.1 of the reviewed studies clearly depict a knowledge gap in the study of IFRS 7 financial instruments disclosure in the financial institutions of Nigeria, a developing capital market economy. The reviewed studies further reveal shortages in the application of panel data even when researchers view that data to be more informative, more efficient and have a higher degree of freedom and lesser collinearity (Hodgdon et al., 2009). Similarly, a look at the table also indicates that few studies have utilised the multiple regression technique in their analysis even when that technique is most suitability used on a single dependent variable over multiple dependent variables as in this study (Hair et al., 2010).

2.6.2   Audit Committee Size and IFRS 7 Compliance

An audit committee is a sub-committee of the board of directors whose role is to ensure the disclosure quality of the reported accounting numbers of a company. The national association of corporate directors argues that disclosure has always been delegated by the board of directors to the audit committee (NACD, 2007). The primary duty of audit committees as custodians of financial report is to monitor the financial reporting process and ensure adequate disclosure in the financial statements of companies (Liu et al. 2014, SEC, 1990). As overseers and monitors of the financial reporting process, audit committees also give advice in the choosing and sacking of a company's independent auditors (Braiotta, 1999).

Several studies have been conducted on audit committee characteristics. For instance, Dechow, Sloan, and Sweeney (1996) and McMullen and Raghunandan (1996) both found evidence that companies with audit committees are less likely to experience financial fraud than those without audit committees as at the time of fraud. Abbott,

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Park, and Parker (2000) concentrated on audit committee effectiveness by changing the audit committee dichotomous variable with only one variable. Al-Akra, Eddie, and Ali (2010) found an audit committee to be a strong determinant of IFRS compliance. Beasley, Carcello, Hermanson, and Lapides (2000) examined audit committee composition and activity separately. They limited their study to three industries (technology, healthcare and financial). The researchers found fewer audit committees and less independent boards in fraudulent financial services industry. Beasley (1996) found no significant relationship between the presence of independent directors in audit committee and IFRS compliance. These studies demonstrate an empirical gap that requires further exploration concerning which particular audit committee characteristics are most likely to be associated with financial reporting disclosure quality.

Based on these important omissions, other studies also examined various audit committee dimensions such as size, expertise, independence, and meeting frequency in relationship to IFRS compliance. For instance, Kalbers and Fogarty (1993) reported that a large audit committee tends to improve the audit committee power and status within the company, which results in getting more resources. A larger audit committee has more of a likelihood for internal control disclosure effectiveness than a small audit committee because the larger the resource allocation, the better the performance of the oversight role of the audit committee, hence, the overall performance of the company in terms of disclosure quality (Anderson et al., 2004).

Empirically, Vafeas (2005) showed that the size of the audit committee helps determine its performance because the availability of more members in the audit committee may

result in various capable hands upon which the committee will draw for expertize. Anderson, Deli, and Gillan (2004) stated that larger boards devote more time and commit more resources to monitor the financial reporting process and internal control system of a company. This implication is that an increase in audit committee size enables members to distribute their oversight responsibilities. They also devote more time and resources to monitoring management with a view towards rectifying anomalies before they are finally disclosed in financial reports.

Other researchers have found the opposite. For example, Yermack (1996) found that a small audit committee size enhanced company value. Jensen (1993) argued that having small audit committees improved the monitoring and control efficiency of the entire board. Goodstein, Guatam, and Boeker (1994) observed that larger board size is more associated with delays because of so many members with different interests and administrative capabilities. Xie, Davidson, and DaDalt (2003) documented an insignificant relationship between audit committee size and disclosure of earnings management.

2.6.3   Audit Committee Expertise and IFRS 7 Compliance

To effectively monitor the financial reporting process and ensure compliance, audit committee members require in-depth knowledge of accounting and audit rules and also must have some level of literacy to interpret accounting standards. Audit committee oversight functions are complex and technical hence members need to have both technical and expert knowledges in financial reporting and auditing that will help them examine compliance details of accounting reports presented to them (McDaniel et al., 2002). The Sarbanes Oxley Act (2002) in the United States requires that audit

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committees have at least a financial expert and, if they do not, the complying company should state the reason why there is none. Hence, Mitchell (2003) found the immense benefits of financial expertise in audit committee to include greater ability to interpret and detect differences in figures presented by management and professional auditors in the process of compiling financial report at the end of financial year.

Other scholars have studied the relationship of expertise and audit committee members. Xie, Davidson, and DaDalt (2003) empirically examined whether audit committee members with financial expertise or backgrounds helped in the disclosure of earnings manipulation pre-SOX. Their result indicated that audit committee members with financial literacy impacted positively in reducing earning misstatement. Bryan, Liu, and Tiras (2004) also argued for financial literacy in an audit committee because such literacy enhances disclosure effectiveness. Bedard, Chtourou, and Courteau (2004) and Carcello, Hollingsworth, and Neal (2006a) showed that the presence of at least a member of the audit committee with financial expertise increased disclosure of earnings informativeness thereby lowering the possibility of destructive earnings. Woidtke and Yeh (2013) reported improved disclosure in financial statements with an audit committee comprised fully or with a majority of independent members with financial expertise.

Defond, Hann, and Hu's (2005) study reported that the capital market favours the appointment of financial experts with accounting knowledge or expertise on audit committees. Dhaliwal, Naiker, Zealand, Navissi, East, and Author (2007) segregated the financial expertise of the audit committee into three distinct types: 1) accounting, 2) finance and 3) supervisory. The authors' findings revealed a positive relationship

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between disclosure quality of accruals and accounting expertise but no significant relationship between disclosure quality of accruals and non-accounting experts. Akhigbe and Martin (2006) documented a favourable disclosure effect in valuation with the presence of financial expertise on an audit committee pre-SOX financial services industry.

Chang and Sun (2009) found a positive reaction in cross-listed foreign companies with financial expertise on audit committees after SOX. Carcello, Hollingsworth, and Neal (2006a) found both accounting and non-accounting experts such as bankers, insurance experts, venture capitalists and CEOs of other companies assisted in the disclosure of destructive earnings of companies with weak corporate governance oversight mechanisms post-SOX. Marra, Mazzola, and Prencipe (2011) found financial expertise of audit committees to impact positively on the disclosure practices of the companies studied thereby reducing earnings management.

Ojeka, Iyoha, and Asaolu (2015) found a significant positive impact of financial expertise on IFRS compliance. McDaniel, Martin, and Maines (2002) assessed the difference between financial expertise and financial literacy on the credibility and disclosure quality of financial reports using samples from company's pre-SOX statements. The authors found that financial experts in an audit committee are likely to transform the corporate governance oversight assessment of a company's financial reporting process. Similarly, Albring, Robinson, and Robinson (2014) found that expertise in an audit committee contributing to achieving the objectives of SOX in firm monitoring.

Other authors found a relationship between financial expertise on an audit committee and earnings manipulation. For example, Liu, Tiras, and Zhuang (2014) found that the presence of accounting experts in an audit committee reduced earnings manipulation. Karamanou and Vafeas (2005) demonstrated that companies with an accounting expert on the audit committee were more likely to result in management earnings guidance disclosures that were more accurate. Liu and Zhuang (2008) showed that management earnings guidance disclosure with an accounting expert on the audit committee was positively associated with the forecast accuracy of analysists and negatively associated with forecast dispersions.

However, Bedard, Chtourou, and Courteau (2004) and Lin and Hwang (2010) found a negative association between audit committee accounting expertise and higher discretionary earnings management. The result suggests that the monitoring role of an accounting expert can reduce the opportunity attributable to earnings management. Lin, Li, and Yang (2006) failed to find any relationship between financial expertise meeting frequency and disclosure in financial misstatements of earnings. Moreover, Yang and Krishnan (2005) found no evidence of any significant relationship between the existence of financial expertise and disclosure quality of quarterly discretionary accrual returns.

The empirical studies reviewed above highlight the importance of financial expertise in audit committees because members require a high degree of sophistication both in knowledge and experience to enhance their disclosure oversight role as custodians of shareholder's wealth.

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2.6.4   Audit Committee Independence and IFRS 7 Compliance

Audit committee independence is considered to be a reliable mechanism in strengthening the financial reporting disclosure of companies. The presence of independent members on an audit committee impacts positively the review of the adequacy of (and compliance) with a company's internal control system that contributes to reducing fraud and irregularities. To restore the credibility of accounting numbers, post financial crisis, investors sought the disclosure of accurate and reliable financial and non-financial information in annual reports (Fodio et al., 2013). Audit committee independence is seen as an important attribute that ensures management transparency and accountability to stakeholders (Cadbury Committee, 1992; Blue Ribbon Committee, 1999).

Vast expanses of research exist on audit committee independence. A majority of these studies have found independent audit committee members to be objective and not likely to condone non-compliance, manipulation or misappropriation of the accounting numbers in financial statements. Abbott, Parker, and Peters (2002) found evidence supportive of this assertion in the perspective of financial report accrual quality. According to Nigerian SEC code of corporate governance, for an audit committee to be adjudged as fully independent, a majority of its members must be independent directors or non-executive directors (SEC, 2011).

The reasons for this is simple. A positive association between an independent and high quality disclosure of information, thus recent reforms in audit committee composition requires that audit committees comprised independent directors because executive

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directors have few incentives to oppose the propositions of management (SOX, 2002; SEC, 2011).

Many researchers have studied this relationship. For example, Klein (2002) argued that an audit committee with independent members serves as a superior monitor of disclosure in the financial reporting process of a company. Goh (2009) showed in a post-SOX study that the presences of independent audit committee members was associated positively with high-quality disclosure in financial reports. Vafeas (1999) indicated greater disclosure monitoring and diligence by independent audit committee members.

Empirical evidence on audit independence generally has documented positive results. For example, Abbott, Parker, Peters, and Raghunandan (2000) and Klein (2002) found positive disclosure relationship of independence with earnings misstatement. Carcello and Neal (2000) showed a positive relationship between audit committee independence and disclosure quality of financial reports. Similarly, Akhigbe and Martin (2006) observed favourable influence in the capital market shares of financial services companies that had a majority of independent directors in their audit committee after SOX. Similarly, Bedard and Coulombe (2008) recorded the positive impact of independent audit committee members in the initial public offering (IPO) of shares in Quebec.

Bryan, Liu, and Tiras (2004) investigate audit committee independence and audit committee effectiveness, and their finding documented an improvement in the credibility of disclosed earnings in financial statements related to that independence.

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Jenkins (2002) found that the presences of independent members on an audit committee mitigated positively the disclosure of income increasing earnings by the management. Additionally, Osma and Noguer (2007) reported that audit committees with a higher number of independent member was associated positively with lower disclosure level of earnings management. Similarly, Chang and Sun (2009) observed a positive market reaction on disclosure of fully independent audit committee members post-SOX. Carcello and Neal (2006) found disclosure effectiveness in independent members in an auditing committee with financial expertise in mitigating earnings management.

Sun and Liu (2013), employing 18,513 firm-year observations, examined the interactive effects of audit committee independence and auditor industry specialization from 1999 to 2010. The study found a negative and significant relationship on the interaction. Similarly, Petra (2007) failed to find any association between audit committee independence and disclosure of earnings informativeness. Xie, Davidson, and DaDalt (2003) reported a negative association between audit committee independence and the disclosure of earnings management. Al-Akra, Eddie, and Ali (2010) reported an insignificant relationship between independence in an audit committee and disclosure.

In Nigeria, Fodio, Ibikunle, and Oba (2013) found a positive relationship between audit committee independence and discretionary earnings management in the insurance industry. This study of the insurance industry showed that independence in audit committee may not be an important corporate governance mechanism in reducing earnings misstatement by managers in that the Nigerian context.

2.6.5   Audit Committee Meeting Frequency and IFRS 7 Compliance

The meeting frequency of an audit committee has been documented in previous studies as an indicator of audit committee effectiveness (Kent & Stewart, 2008). Shareholders and other users of financial statements view infrequent meetings as an indicator of less commitment by audit committee members due to insufficient time to discharge their responsibilities of managing the financial reporting and audit procedure. Xie, Davidson, and DaDalt (2003) observed that increased audit committee activity proxied by audit committee meeting frequency is associated with reduced levels in earnings management. Bryan, Liu, and Tiras (2004) observed that an audit committee that meets regularly improves the disclosure transparency and openness of reported earnings and therefore improve earning quality. Members of an audit committee that meets regularly are often expected to be able to perform the monitoring role for disclosures more effectively.

Zhang, Zhou, and Zhou (2007) used the number of meetings to measure the influence of disclosure on financial reporting quality. They concluded that audit committee meeting frequency has an influence on financial reporting quality. Ruzaidah and Takiah (2004) showed that audit committees of companies with good reporting meet more frequently than those companies with poor reporting. Carcello, Hermanson, and Raghunandan (2005) found that more than half of the companies studied specified the minimum number of meetings they held during the year. The Nigerian code of governance requires that audit committees and their members should meet three times in a year at a minimum (SEC, 2011).

Conversely, however, opposing empirical evidence exists on the impact of audit committee meeting frequency on the level of financial reporting disclosure quality. Vafeas (2005) found a negative relationship between audit committee meeting frequency and earnings management. Similarly, Bedard, Chtourou, and Courteau (2004) and Lin, Li and Yang (2006) failed to find any positive relationship between audit committee meeting frequency and financial reporting disclosure quality. Other studies also have examined the association between audit committee meeting frequency, earning management and disclosure quality with different results (Choi et al., 2004; Goodwin-Stewart & Kent, 2006; Rahman & Ali, 2006; Yang & Krishnan, 2005; Vanderzahn & Tower, 2004).

2.6.6 Risk Management Committee Size and IFRS 7 Compliance

Agency theory argues that the risk management committee size helps in evaluating and monitoring risks identified by management and ensuring compliance with company policies and programs and the reporting of findings to the main board (Alles et al., 2005). Subramanian, McManus, and Zhang (2009) argued that large risk management committee size exists due to the likelihood of high agency costs as a result of high leverage and greater complexity in a company's operation. Alles, Datar, and Friedland (2005) found a larger risk management committee size helped in reducing time and fatigue in these committees and thus increased the ability to rigorously review management, internal control or audit report and processes as such provide better quality disclosure in annual reports.

A risk management committee (RMC) is a sub-committee of the board of directors. RMC size refers to the number of members serving in the board risk committee (Allies

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et al. 2005; Andres et al. 2012). The Code of Corporate Governance in Nigeria specifically states that the board of directors should establish RMCs in order to oversee and monitor the risk management framework of all listed companies (SEC, 2011). No regulation exists on the size of RMC members in Nigeria. According to the code, members of RMC should include both executive directors, non-executive and management staff in charge of risk matters should serve in the RMCs of financial institutions in Nigeria. This, according to the code, is to enable the board to draw upon from a member's specialist knowledge of risk matters to assist the board in carrying out their responsibilities for better corporate governance and financial reporting (SEC, 2011). This is done in order to effect greater compliance with and align the quality of a company's risk information to international best practices that can lead to improve performance (Pincus et al., 1989; SEC, 2011).

According to the Australian Stock Exchange (ASX), listed firms should establish RMCs to review the firm's hedging and risks policies (ASX, 2007). Thus, the primary duty of the RMCs is to oversee the company's risks and hedging policies as well as risk reporting for improved performance of the firm.

Prior literature found that firms with RMCs perform significantly better than companies without such committees (Allies et al. 2005; Subramanian et al. 2009). Moreover, the existence of a RMC has caught the attention of scholars to investigate the relationship between RMC and the recent financial scandals. Subramanian, McManus, and Zhang (2009) observed a drastic reduction in fraudulent financial risk reporting with the establishment of RMC. Other empirical studies also established a positive relationship between RMC size and a company's scope of operations (Coles et al., 2008; Lehn et al.

2009). Bradbury (1990) and Piot (2005) found a positive relationship between risk management committee size and a company's volume of operation.

Overall, the results have been mixed. Several authors found that smaller committee size like RMC could enhance the quality of earnings (Ahmed et al., 2006; Beasley, 1996; Klein, 2002; Vafeas, 2000). Other studies find no relationship or a negative relationship between size and disclosure of earnings management (Chtourou et al., 2001; Xie et al., 2003). Board committee size is a function of its volume of activities because the more the activities, the greater the sophistication of company's operation. Hence, more demand for board committees such as the RMC to share the responsibilities due to decision complexities (Peasnell et al., 2005).

Subramanian, McManus, and Zhang (2009) found that a RMC of a board of directors functions the key governance support mechanism overseeing the risk management strategy of a company. They also found effective policies in larger boards headed by an independent chairman associated with separate risk committees. Other scholars also found a positive relationship between RMC size and disclosure in the companies studied (Beattie et al., 2004; Firth, 1979; Hossain et al., 1995).

Moreover, Subramanian et al. (2009) argued that a larger RMC has a better opportunity of obtaining the financial resources to organize itself for effective oversight responsibilities. Beretta and Bozzolan (2004) and Linsley and Shrives (2006) both found significant relationships between company size and the disclosure oversight of RMC members. Rajab and Handley-Schachler (2009) examined RMC disclosure quality in three different periods (1998, 2001, and 2004). The study found a trend of

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increasing amounts of risk disclosure in the annual reports influenced by the UK accounting regulations and the accounting institutes recommendations.

2.6.7 Risk Management Committee Independence (RMCI) and IFRS 7 Compliance

An independent member of the RMC acts as shareholder representative and can bring a wealth of experience and external connections with high reputational values to serve in the best interests of shareholders. An independent director has no direct or indirect relationship with management other than being a member of the board (Pincus et al., 1989). As independent members on the RMC, they assist in the review of risk adequacy and compliance with internal accounting controls aimed at minimising irregularities in financial reporting disclosure.

Goh (2009) found financial reporting quality to positively related with committee member's independence. RMC as a specialised committee indicates greater monitoring on the part of board members (Vafeas, 1999). Klein (2002) observed that independent members in RMCs serve as superior monitors of the financial reporting and risk disclosure process of the entire board. Due to their degree of importance as effective monitors, both the Sarbanes-Oxley (SOX) and the SEC code of corporate governance in Nigeria suggested the need for more independent members in boards and on committees such as the RMC.

Empirically, Carcello and Neal (2000) argued in favour of the positive effect of independent members in committees such as RMC in disclosing earnings misstatement. Akhigbe and Martin (2006) document positive SOX influence on the market valuation

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of shares in financial institutions with the majority of their committee members being independent on both the RMC and the entire board. Chang and Sun (2009) found a positive market reaction to the announcement of independent members in such committees as the RMC after SOX. For effective monitoring of financial report, RMC members should possess deep knowledge and technical accounting standard rules.

2.6.8 Risk Management Committee Expertise and IFRS 7 Compliance

Risk committee members with advanced financial background are more likely to succeed than those with inadequate financial and accounting knowledge of the risk disclosure requirements of the standards. Members should, therefore, have both technical and specialised knowledge in auditing and risk reporting to independently examine the significance of the risk report presented by the management or external auditors (McDaniel et al., 2002). The rule in the Sarbanes-Oxley Act (SOX) is that companies should disclose whether their board committees such as the RMC have financial experts and, if not, they should explain the reason why (SOX, 2002). According to Mitchell (2003) committees such as RMC members with financial expertise have greater ability to handle risk reporting issues in the event of a dispute between professional auditors and management.

Previous empirical studies have investigated the different effects of financial expertise and financial literacy on the credibility of financial reporting of risk disclosure in annual reports. McDaniel, Martin, and Maines (2002) found that putting financial experts on committees such as the RMC was likely to transform the corporate governance structure and impact positively the financial reporting risk disclosure especially of financial institutions. Xie, Davidson, and DaDalt (2003) recorded that financial literacy mitigates

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earnings management as a result of higher risk disclosure. Bryan, Liu, and Tiras (2004) suggested that financially literate members in board committees such as RMC increase the disclosure of earnings in financial report.

Bedard, Chtourou, and Courteau (2004) and Carcello and Neal (2006) found having at least a member with financial expertise was associated positively with RMCs disclosure oversight function thus reducing the possibility of destructive earnings. Defond, Hann, and Hu (2005) concluded that the market showed positive optimism for financial expertise on board committees. Carcello and Neal (2006) found both types of expertise (accounting and non-accounting) from experienced bankers, financial analysts, venture capitalists, actuaries and experienced CEOs of companies assisted in risk management assessment and financial reporting disclosure thereby reducing earning manipulations in companies with weak corporate governance mechanisms. Chang and Sun (2009) found a positive reaction from the capital market with the announcement of financial experts serving on committees such as the RMC. In contrast, Yang and Krishnan (2005) failed to find a significant relationship between financial expertise and discretionary earnings disclosure.

In a nutshell, financial institutions in Nigeria require some level of financial expertise in their RMCs for an effective discharge of their oversight function of financial report disclosure.

2.6.9 Risk Management Committee Meeting and IFRS 7 Compliance

Risk Management Committee meeting frequency (RMC) has been documented as an effective CG mechanism in prior literature. Raghunandan, Read, and Rama (2001)

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showed that committees such as the RMC, which include independent members with at least one having accounting or financial expertise, are more likely to consult longer with the chief internal auditor, review the internal audit program and results, and review management's relationships with the internal audit unit. Carcello and Neal (2000) found that RMC diligence as a proxy for audit quality positively relates with audit fees.

Practical support on the impact of the frequency of RMC meetings on the level of financial reporting disclosure quality is mixed. Bryan, Liu, and Tiras (2004) found that committees such as RMC that meet on a regular basis improve disclosure transparency of reported earnings and enhance earnings quality. When RMC of the board meets frequently, the level of risk disclosure increases (Bronson et al., 2006). Therefore, it is expected that an increase in RMC meetings will likely increase disclosure.

On the other hand, others scholars have found a different result. Vafeas (2005) a found negative relationship between the number of meetings in board committees such as the RMC and disclosure of earnings management. However, Lin, Li, and Yang (2006) did not find any evidence of a relationship between meeting frequency and financial expertise on earnings restatement. Other prior studies also failed to find significant outcomes between committee meeting frequency and the disclosure of earnings (Yang & Krishnan, 2005; Davidson et al., 2005).

2.7 Block holder Ownership and IFRS 7 Compliance

As an important variable of corporate governance mechanism, shareholder structure, also known as ownership structure has become an important subject of debate in the field of financial management (Ezazi et al., 2011). Many dimensions of ownership

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structure exist, for instance, management or non-managerial shareholding, concentrated

shareholding or disperse shareholding, wholesale shareholding or retail, being domestic

or foreign shareholders, institutional or individual shareholders or block shareholding.

This study's interest is on block ownership. This is because studies confirm that greater

stock ownership aligns with the disclosure objectives of both IFRS and SOX, which is

primarily meant to safeguard committee independence (Albright et al., 2014; Ballas et

al. 2014; Ferreira & Matos, 2008). Moreover, the revised SEC code of corporate

governance in Nigeria emphasises the importance of block holder ownership in the

pursued of the objectives of the firm (SEC, 2011).

Block holder ownership is defined as those investors holding five percentage or more

(ownership ≥ 5%) of ordinary shares (Dou et al., 2013). Block holder ownership implies

large ownership of shares being controlled by a small group of people; hence,

ownership is concentrated in the hands of few investors. Block shareholding plays an

important role in the governance of companies especially those that relate to financial

institutions due to their complex nature.

Block holder ownership can be classified as large investors such as activists and pension

funds, banks and trusts, corporations, hedge fund managers, insurance companies and

money managers, mutual funds, venture capitalists and leveraged buyout companies

(LBOs), and others associated with the aforementioned institutions, clubs, societies,

churches and mosque and individuals (Koh, 2003; Gugong, Arugu & Dandago, 2014).

The presence of block investors in financial institutions may lead the company that is invested in changing their financial reporting disclosure behaviour. This is because of their huge investments, which may either directly or indirectly affect the investee's corporation policy and strategic objectives. One area that block holder ownership can impact positively is in the area of corporate governance. This is normally done by nominating a director to represent the block investor on board of the investee company.

A number of studies have argued that block investors serve a monitoring role by reducing the opportunistic behaviour of management and enhancing corporate disclosure (Aguilera et al. 2012; Gugong et al. 2014; Edmans, 2014). It is generally believed that the involvement of blockholder ownership in the governance of a firm plays a complementary role in its corporate governance oversight functions. A global study of the role of block holder ownership using a comprehensive dataset of 27 US-based and non-US equity holding companies concluded that firms with higher ownership by foreign and independent institutions have higher firm valuations, better operating performance, and lower capital expenditures. The results indicated that foreign and independent institutions, with potentially fewer business ties to firms, are involved in monitoring corporations worldwide (Ferreira & Matos, 2008).

Moreover, block holder ownership, which can be either foreign or local is classified broadly into two categories. First are long-term block investors being those who invest with the aim of holding their ownership stake for very long time. This group has strong incentives to monitor an institution in which they have substantial investments. The second group is short time or transient block investors. These are the predominant block owners whose focus is largely on profit rather than long-term investments (Bushee,

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2001). This group does not normally engage in the monitoring process of the company and whenever they are not in agreement with company's operation, they will dispose their shareholdings instead of participating in the monitoring process or voting out inefficient management (Coffee, 1991).

Prior studies have indicated mixed results on the relationship between types of ownership and IFRS compliance. For example, studies have found a positive association between block ownership and IFRS disclosure especially as related to company performance (Chaganti & Damanpour, 1991; Clay 2001; Han & Suk, 1998; Hartzell & Starks, 2003; McConnell & Servaes, 1990). In contrast, others suggest that no relationship exists (Agrawal & Knoeber, 1996; Craswell et al. 1997; Loderer & Martin, 1997; Navissi & Naiker, 2006).

Further studies have found that the relationship between block holder ownership and IFRS disclosure of aggressive earnings was positive at a lower ownership level while this disclosure was negative at a higher level of institutional ownership. The finding is consistent with the view that the monitoring capabilities of block holders limit a manager's discretion through adequate disclosure in a financial report (Koh, 2003). Extending the study, Koh, Hsu, and Koh (2005) examined both the long- and short-term effects of blockholder ownership on how a manager's disclosure increases or decreases in the reported earnings of companies. Koh et al.'s (2005) findings show statistically significant managerial ownership for linear models but were insignificant for non-linear models. These results confirmed the co-existence of long- and short-term block holder ownership but with different effects on the disclosure of earnings.

Based on the review of previous studies, block holder ownership can play a positive and important role in monitoring financial report disclosure oversight in companies by mitigating a manager's opportunistic tendencies. The SEC code of governance clearly extols the monitoring role of blockholder ownership, which mostly comprises financial institutions and associated nominees (SEC, 2011). Based on the aforementioned this study proposes block holder ownership as potential moderating variable.

2.8 Control Variables

In this study, five control variables are included based on the review of prior literature, because disclosure may be affected by both internal and external factors other than corporate governance characteristics. These variables include: 1) company size, 2) leverage, 3) profitability, 4) audit quality and 5) industry type.

2.8.1 Company Size

Agency theory views that larger companies need to disclose more information to different users. This may lead to a decline in agency costs and reduced information asymmetries (Inchausti, 1997; Watts & Zimmerman, 1983). Agency theory argues that larger companies rely on external sources to finance their operations. Hence, they have incentives for disclosing more information to portray a positive impression to investors and other stakeholders regarding their ability to manage risks associated with financial instruments. Large companies are more likely to face political costs as compared with their smaller counterparts (Watts & Zimmerman, 1986). Meek, Rao, and Skousen (2007) opined that large-sized companies have lower information asymmetry because of their enhanced corporate governance structure and external monitoring oversight functions. This current study employs natural log of total assets to proxy company size.

2.8.2 Leverage

Debt may be a significant variable that impact a company's disclosure. Agency theory argues that agency costs are higher in companies that are more leveraged. This means that firms need to release more information to satisfy the needs of creditors in to justify the costs of borrowing (Jensen & Meckling, 1976). Moreover, managers provide more financial information on risks in order to show debt holders that the company is able to meet its contractual obligations (Oliveira et al., 2013). This current study employs total liabilities divided by total assets to measure financial leverage.

2.8.3 Profitability

Agency theory suggests that profitable company managers tend to provide more financial instruments risk disclosure in financial statements as justification of performance to stakeholders and the investing public. Therefore, applying agency theory, the argument can be made that firms who have better financial instruments may have higher relative profitability. Moreover, the managers of these companies will want to show their management capabilities to the capital and debt market through disclosures in their annual financial reports. In this current study, net profit divided by year end owners' equity is used to compute a company's profitability.

2.8.4 Audit Quality

Studies empirically document the type of auditor and its relationship with explaining financial instruments disclosure. According to Jensen and Meckling (1976), "Big 4" audit firms act as a good corporate governance mechanism in reducing agency costs and in the monitoring oversight role by mitigating opportunistic behavior of managers. The literature argues that large international audit firms act as sources of inspiration for

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companies to disclose more financial instrument risk information to protect their names and avoid unnecessary litigation costs (Chalmers & Godfrey, 2004). The "Big 4" professional auditing firms are more likely to persuade management to disclose financial instruments risk information in their financial statements to assure shareholders and debt holders about the extent of risk in the company's portfolio.

Agency theory suggests that both the auditing firms and their clients stand to benefit from a high-quality audit. The choice of a good external auditor, especially a "Big 4" audit firm, can serve to increase a company's value. For instance, Craswell and Taylor (1992) argued that, although they charge higher fees, given the opportunity listed enterprises are more likely to choose a "Big 4" audit firm to be their auditors. The choice may herald to shareholders and prospective investors that the information in the financial report is qualitative and therefore more beneficial to shareholders and other stakeholders. An audit firm may seize the opportunity for greater disclosure by their clients as a way of proving to outsiders that their audit is superior (DeAngelo, 1981). Studies on IFRS compliance generally document a positive and significant relationship by companies engaging a Big 4 audit firm in contrast to a non-Big 4 audit firm. This study uses Big 4 and non-Big 4 as a proxy for audit quality.

2.8.5 Types of Industry

Although banks and insurance companies are classified under financial institutions, they nevertheless have different peculiarities (Wallace et al. 1994). Hence, banks in Nigeria have additional regulations that are distinct from insurance companies and therefore adopt disclosure requirements additional to those for firms from insurance companies and other categories in the financial sector. The adoption of industry-related

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disclosure practices due to differences in their requirements may contribute to the differences in the levels of comprehensiveness in the quality of financials observed in the annual accounts of the sampled companies.

Previous empirical studies have documented that the sub-sector in which a company belongs can affect disclosure (Thompson & Zakaria, 2004; Amran et al., 2009; Konishi & Mohobbot, 2007). Firms in different industries are expected to experience differences due to their risk types. This may be as a result of special regulations and the nature of risks associated with the company's exposure (Sunusi, 2012).

According to signalling theory, firms operating in same industry have the likelihood of having the same risk disclosure level to avoid negative appreciation by the market (Lopes & Rodrigues, 2007). The information disclosure by firms may vary according to types of industry and different industries would the uniqueness or differences in business settings would affect a company (Craven & Marston, 1999). Consequently, risk types and levels of risks will differ in accordance with sectoral differences, sectoral density, value formation and the degree of risk disclosure in each sector. This study uses industry dummy ''1'' for banks and ''0'' if otherwise.

2. 9   Summary

This chapter reviews related and relevant literature in relationship to the variables of the study. Some of the reviewed studies highlight similarities through application of identical rules in different ways (Leuz, 2003). Other researchers differ in the degree to which they conform to disclosure requirements (Glaum & Street, 2003). Some of the

studies use different variable measurements, hence, obtain different findings of the study.

Other research differs in the way in which they use checklists. Some researchers use compliance a checklist to measure mandatory IFRS disclosure requirements (Al-Shammari et al., 2008; Glaum & Street, 2003; Street & Bryant, 2000; Street & Grey, 2002b; Street et al., 1999). Other scholars use disclosure indices as their method of measurement. For example, Renders and Gaeremynck (2007) used two indices: 1) corporate governance index designed by OECD and 2) corporate governance code designed by the European Commission to determine the level and extent of IFRS compliance. Kent and Stewart (2008) used other two dimensions, 1) the number of sentences and 2) changes in accounting policy, using content analysis as measurement of IFRS compliance with disclosure required items.

Hodgdon et al. (2008) used both dichotomous and unweighted disclosure techniques to measure IFRS compliance, while Karamanou and Nishiotis (2009) employed events' analysis to evaluate changes in share value around IFRS adoption. In all the articles reviewed, only a few had IFRS 7 compliance as a dependent variable of the study, which was measured in different ways such as using capital approach revaluation model (Strouhal et al., 2008).

Hossain (2014) found the average of IFRS 7 compliance by using content analysis method. Moreover, Bischof, Daske, Elfers, and Hail (2014) evaluated risk disclosure scores in banks using Basel 3 pillars. However, most of the reviewed articles were conducted in the United States, the United Kingdom, Australia, European countries and

Asia. Very few from developing countries especially Africa. One recent study from Nigeria investigated the impact of audit committee financial expertise on financial reporting disclosure quality of 15 listed banks (Ojeka et al. 2015).

Moreover, findings from the reviewed studies documents varied outcomes with some studies having significant and positive associations, some positive relationships, others having a significant and negative relationship, strong negative relationship and others reporting no correlations between the independent variables and IFRS compliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1   Introduction

This chapter discusses the methodology employed for realising the stated objectives of the study. Section 3.2 presents and explains the research framework of the study while Section 3.3 develops hypotheses for this study. Section 3.4 discusses block holder ownership as a potential moderator of the study, whereas Section 3.5 discusses the dependent variable measurements and the measurements of the operationalized variables. Section 3.6 explains research design and discusses the population and sample of the study. Section 3.7 explains the techniques adopted for data analysis and Section 3.8 provide the chapter summary.

3.2   Research Framework

Based on the review of previous studies and the theories (agency theory and resource dependency theory) that underpins this study, a research framework was developed. Figure 3.1 below shows the relationship that exists among the study variables.
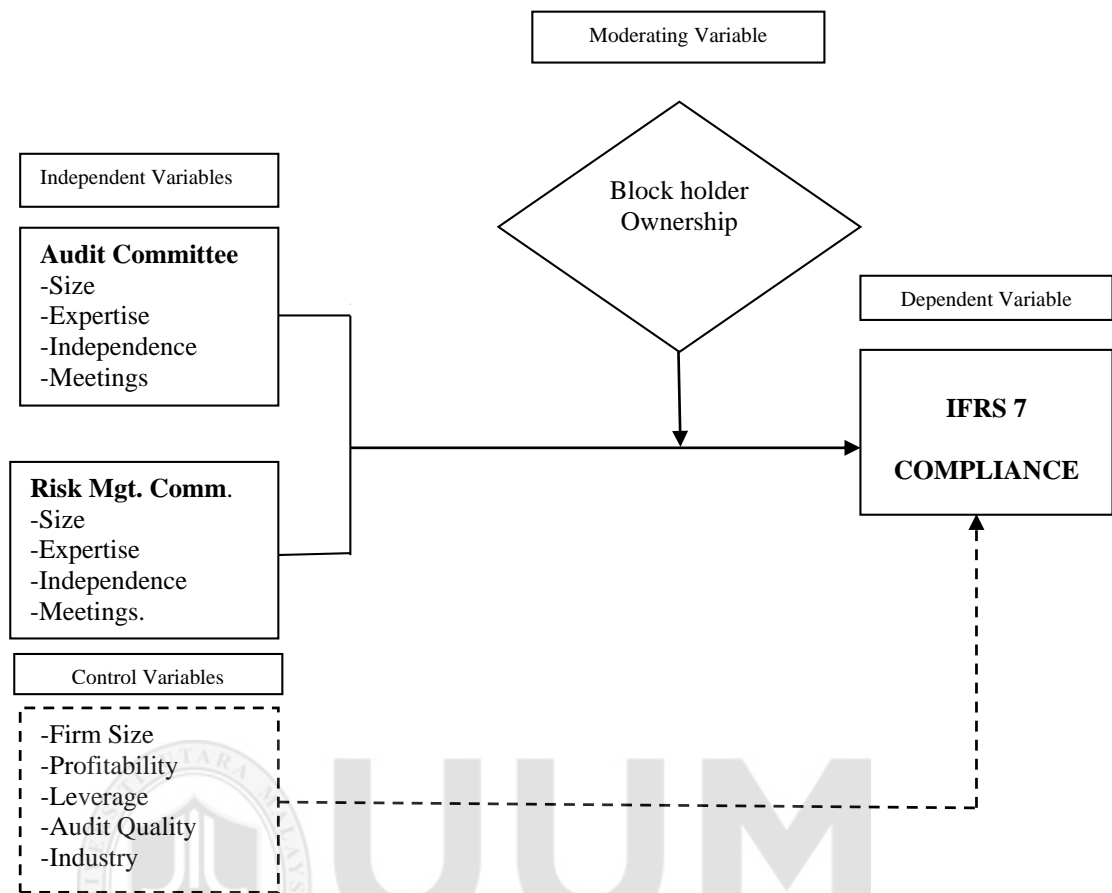
Figure 3.1. Research Framework.

Figure 3.1 shows that the independent variables of the study include audit committee characteristics (size, expertise, independence and meeting frequency) and risk management characteristics (size, expertise, independence and meeting frequency).

The SEC code of corporate governance encourages formation of audit committees and risk management committees by all registered companies in Nigeria (SEC, 2011). The increasing attention given to corporate governance attributes for example, audit committee and risk management committee characteristics response to high profile corporate collapses that affected such companies as WorldCom and Enron in the United States and Intercontinental and Oceanic banks in Nigeria. The audit committee as a

statutory committee of board directors is saddled with a firm's financial reporting and audit related compliance issues (Chau & Leung, 2006). Audit committee characteristics have gained more prominence with the recommendations of Nigeria's Blue Ribbon Committee (BRC) , which highlighted the importance of the committee as a monitor of corporate financial statements (Abbott et al. 2002).

Audit Committee (AC) characteristics (size, expertise, independence, meeting frequency) have been seen as mechanisms to assist companies in avoiding financial reporting restatements and fraud in developed economies (Abbott et al. 2002; Beasley et al., 2000). The current study provides an opportunity for present research to test whether these characteristics can equally assist in mitigating agency problems in financial institutions of developing countries such as Nigeria with different institutional setting and regulatory framework. Additionally, this study introduces risk management committee characteristics such as size, expertise, independence and frequency of meetings to determine if a positive association exists between audit committee and risk management committee characteristics with IFRS 7 compliance.

Risk management committee (RMC) is a newly emerging board sub-committee that requires a significant understanding of firms processes and its risk-related oversight functions (Subramanian et al., 2009). Risk management committee characteristics are included for this study based upon the conviction that a committee with a focus on risk matters (such as a RMC) can assist the full board meet its risk oversight and internal control management functions (ASX, 2007). Similarly, the increasing demand for the study of inter-related sub-committees such as audit committee and risk management committee has been called for because the argument has been made that to safeguard a

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company's reputation, make companies more accountable and transparent and enhance their disclosure in financial statements an understanding of this relationship is necessary (Ruigrok et al. 2006).

Moreover, the requirement has been made that companies should prepare their accounts based on a comprehensive system of risk management framework with a sizeable number of diligent independent expert members as overseers (KPMG, 2005). Hence, this expanding requirement provides additional motivation for the study of audit committee and risk management committee characteristics. Furthermore, block holder ownership is seen in today's globalized business arena as a necessity in corporate control (SEC, 2011). Block holder ownership is therefore introduced as a variable that could strengthen the association between audit committee characteristics, risk management committee characteristics and IFRS 7 compliance aimed at enhanced corporate performance (Davis & Thompson, 1994).

3.3 Hypothesis Development

Based on the underpinning theories (agency theory and resource dependency theory) and previous literature related to variables of study, the following hypotheses are formulated for this study.

3.3.1 Audit Committee Size (ACS) and IFRS 7 Compliance

The code of corporate governance in Nigeria states that the board of directors should comprise not less than five members and the size of audit committee should be decided based on the size of the board (SEC, 2011). In addition, agency theory literature argues that a large audit committee with sufficient resources enables quicker ratification of

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financial reporting disclosure anomalies and enhances transparency and accountability in a company's financial report (Li et al. 2012; Bedard et al. 2004).

Similarly, previous studies have investigated the role of audit committee size as an effective governance monitoring mechanism for controlling disclosure in financial report of companies. For example, Yermack (1996) argued that a small-sized AC enhances company value. Coles, Naveen and Naveen (2008) were also of the view that a small AC was more productive and cohesive with better ability to monitor management than a large AC. Pathan and Faff (2013) suggested that everything being equal, a small-sized AC performed better than a large AC.

Furthermore, Jensen (1993) observes that having a small audit committee improved monitoring and control efficiency. Goodstein, Guatam, and Boeker (1994) posited that a large-sized audit committee was associated with administrative delay and bureaucratic bottle necks because of the number of members with different opinions serving on the committee.

In contrast, Anderson, Deli and Gillan (2004) suggested that a larger audit committee can devote more time and resources to monitor the financial reporting disclosure process and internal control system. However, the argument has been made that large audit committees are associated with incremental costs of ineffective information flow and quick decision-making capability (Jensen, 1993; John & Senbet, 1998).

Braiotta (1999) argued, that for the audit committee to perform its financial reporting disclosure effectively, the committee should generally be large enough to have

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members with varied knowledge, skills and experience. Audit committees should also be empowered with more resources due to the complexity of the accounting and financial reporting process it reviews, which merit such commitments (Abbott et al., 2002; Bailey et al., 2000).

Felo, Krishnamurthy, and Solieri (2003) found a positive relationship between audit committee size and financial reporting disclosure quality. Cornett, Marcus, and Tehranian (2008) and Lin and Hwang (2010) posited that large audit committees were negatively associated with the disclosure quality of earnings management. Anderson, Deli, and Gillan (2003) found a negative association between audit committee size and a company's cost of debt. However, Andres, Romero-Merino, Marcos Santamaría, and Vallelado (2012) reported no optimal audit committee size in financial institutions. Other studies have also examined the association between audit committee size and other disclosure quality relationships with different results (Abbott et al., 2004; Bedard et al., 2004; Dahliwal et al., 2010; Davidson, 2005; Lin et al., 2006; Xie et al., 2003; Yang & Krishnan, 2005).

In light of the above arguments, the expectation is that a large audit committee can enhance higher IFRS compliance by listed financial institutions in developing countries such as Nigeria (Akhtaruddin et al., 2010). In view of the mixed findings, however, regarding the association between audit committee size and IFRS compliance, the following hypothesis is made with respect to audit committee size and IFRS 7 compliance. Similarly, all other hypothesis in this study are developed with respect to IFRS 7 compliance.

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H₁ₐ: There is a significant positive relationship between audit committee size and IFRS 7 compliance by listed financial institutions in Nigeria.

3.3.2   Audit Committee Expertise (ACE) and IFRS 7 Compliance

An audit committee member's financial expertise is another characteristic that has been associated with audit committee effectiveness. According to the Blue Ribbon Committee (1999) financial literacy is the ability to read and understand figures written in financial statements. The Blue Ribbon Committee (BRC) opines that accounting or financial management expertise may be exhibited through past employment experience in finance or accounting, practical knowledge and certification, comparable experience, or previous work experience as CEO or other senior management position with financial oversight functions. The SEC code of corporate governance in Nigeria states that audit committee members should be able to read and interpret basic financial statements and should be able to make positive contributions to the audit committee (SEC, 2011).

Accounting expertise of the audit committee members is a strong governance mechanism that helps to curtail the excesses of management (Liu, Tiras, & Zhuang, 2014). Knowledgeable audit committee members, especially those with financial expertise, are better equipped to monitor external auditors and comprehend areas of disagreements between managers and the external auditor (DeZoort 1998; DeZoort & Salterio 2001). Abbott, Parker, and Peters (2004) and DeFond, Hann, and Hu (2005) maintain that experts serving on audit committees function as technical advisers aimed at improving the effectiveness of the audit function of the entire board. Accounting and finance experts on the audit committee provide a substitute for good governance

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because the capital market positively values and reward companies that appoint members with accounting and financial expertise (Davidson, Goodwin-Stewart, & Kent 2005; De Fond, Hann, & Hu, 2005).

Previous studies, for example Dhaliwal, Naiker and Navissi (2010) and Krishnan and Visvanathan, (2008), have found that companies with an accounting expertise on the audit committee promote more conservative accounting earnings and exhibit higher accruals disclosure in financial statements than those without accounting expertise on the audit committee. Karamanou and Vafeas (2005) found that audit committee financial expertise was positively related to the decisions of managers to disclose accurate management earnings forecasts. Moreover, Liu, Tiras, and Zhuang (2014) concluded that the influence of audit committees on the decisions of managers to issue earnings forecast disclosures was related positively to analysts' accurate predictions and dispersion.

DeFond, Hann, and Hu (2005) studied market reaction to the appointment of audit committee members with accounting and financial expertise. The authors found positive reactions in the capital market to the announcement of accounting and financial experts appointed to the audit committee. Carcello, Hollingsworth, and Neal (2006) studied the association between financial expertise and earnings management proxy by abnormal accruals. They found that accounting and financial experts were consistently associated with less earning management. Dhaliwal et al. (2010) found a positive relationship between accounting and financial expertise in audit committees and financial reporting and accrual quality.

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Additionally, Raghunandan, Read, and Rama (2001) found that audit committees with financial expertise interact more with their internal audit units and are not likely to have internal audit weaknesses (Krishnan, 2005). However, others did not find any relationship between financial report disclosure and financial expertise in the companies studied (Lin, Li, & Yang, 2006; Yang & Krishnan, 2005).

Moreover, Xi, Davidson, and Dadalt (2003) and Bryan, Liu, and Tiras (2004) argued that the presence of financial expertise on the audit committee was negatively related with discretionary accruals and increased the disclosure of earnings informativeness. Bedard, Chtourou, and Courteau (2004) and Carcello, Hollingsworth, and Neal (2006) discovered the presence of at least on member of the audit committee with financial expertise reduces the possibility of destructive earnings. McDaniel, Martin, and Maines (2002) related effective corporate structure and compliance ability in the audit committee with financial expertise. Akhigbe and Martins (2006) found a positive valuation effect of audit committee in pre-SOX financial institutions.

Chang and Sun (2009) supported these results, finding a positive market reaction to the appointment of a financial expert on the audit committee after the Sarbanes-Oxley Act (SOX, 2002). Davidson, Goodwin-Stewart, and Kent (2005) reported significant upward stock price reaction with financial expertise assigned to audit committee. Defond, Hann, and Hu (2005) showed a positive market reaction to the appointment of financial experts to audit committee but without a reaction to a non-financial expertise being assigned to an audit committee. Based on the preceding arguments, and in line with agency theory, this study posits that:

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H1b: There is significant positive relationship between the proportion of expertise in an audit committee and IFRS 7 compliance by listed financial institutions in Nigeria.

3.3.3   Audit Committee Independence (ACI) and IFRS 7 Compliance

Nigeria's code of governance (SEC, 2011) recommend that an audit committee should include and be chaired by an independent director because executive directors being insiders cannot oppose the proposition of management. Independence is an important component of an audit committee that is aimed at ensuring managements' transparency and accountability to shareholders and other stakeholders (Blue Ribbon Committee, 1999). Independent members in audit committees are regarded as experts in decision control (Fama & Jensen, 1983). According to Vafeas (1999), independent members of audit committee are specialists whose existence indicates the ability to perform and diligence on the part of committee members and entire board of directors.

Studies have documented the ability of independent members in audit committees to mitigate agency problems and provide support for information disclosure and value creation to shareholders. They also assist in reducing earnings management and increase earnings forecast accuracy (Aboagye-Otchere et al., 2013; Ahmad-Zaluki & Wan Hussin, 2009). Some studies have argued that an independent director's oversight role is not associated positively with greater monitoring of management in different jurisdictions (Beasley, 1996; Carcello & Neal, 2000). Chau and Leung (2006) found a positive association between the proportion of independent non-executive directors on the corporate board and the existence of an audit committee. Akhigbe and Martin (2006) found that independent directors on the both audit committee and the entire

board favourably influenced the capital market for financial products and helped mitigate earnings management.

Agency theory argues that independent directors are people of high repute who come in with wealth of experience and expertise in decision control that is expected to contribute positively to audit committee monitoring of managers (Cornett et al., 2008; Fama & Jensen, 1983). Beasley, Carcello, Hermanson, and Lapides (2000) maintain that AC independence is related significantly to financial report disclosure quality. These researchers observed that financial frauds are more likely to occur in companies with less audit committee independence. Similarly, several prior scholars agree that audit committee independent members provide the requisite information to stakeholders and render support to internal auditors thereby increasing the level of disclosure in an annual report (Akhtaruddin, 2005; Khodadadi et al., 2010; Li et al., 2008).

Similarly, Rainsbury, Bradbury and Cahan (2008) maintained that the aim of statutory audit is to render support for independent directors in giving the required direction to managers in protecting the interests of shareholders. Chang and Sun (2009) argued that capital markets viewed independence in audit committee with positive optimism, while Carcello, Hollingsworth, and Neal (2006) recorded more audit committee effectiveness with independent financial expertise. Goh (2009) found a high-quality financial report to be associated positively with committee independence as they serve as higher quality monitors of the financial reporting disclosure. Klein (2002) added that audit committee independence created value for shareholders.

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However, Petra (2007) failed to find any association between audit committee independence and earnings informativeness. Furthermore, Lin, Li, and Yang (2006) report no relationship between independent audit committee and disclosure of earnings restatements. Xie (2001) also did not find any significant relationship between the level of disclosure of earnings management and audit committee independence.

Abbott, Parker, and Peters (2002) found evidence to support the expectation that independent directors on audit committee are more effective in pushing for the implementation of IFRS standards and corporate governance codes. Consequently, based on the established relationship between audit committee independence and IFRS compliance and an understanding of the need for further study, the study hypothesised that:

H1c: There is a significant positive relationship between audit committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.

3.3.4 Audit Committee Meeting Frequency (ACM) and IFRS 7 Compliance

Nigeria's code of corporate governance states that audit committee members should meet at least four times within a company's financial period (SEC, 2011). These codes stress the importance of audit committee meeting frequency as indicator of audit committee effectiveness in financial reporting compliance. Users of financial statements view inadequate meetings by audit committee members as an indication of a lack of commitment to the financial reporting oversight process by committee members. Xie, Davidson, and DaDalt (2003) opined that an increase in audit committee activity proxies by committee meeting frequency was associated with enhanced

disclosure, which, in turn, leads to a reduction in the level of earnings misstatements. Bryan, Liu, and Tiras (2004) found audit committee members who meet on a regular basis improve the transparent disclosure of reported earnings by improving earnings quality.

In their study, Zhang, Zhou, and Zhou (2007) revealed a positive relationship between audit committee meeting frequency and financial reporting disclosure quality. Equally, Ruzaidah and Takiah's (2004) study reported that audit committees of good reporting companies meet more frequently than those of poor reporting companies.

Differences exist in the empirical evidence on the impact of audit committee meeting frequency on the level of financial reporting disclosure quality in different settings. Vafeas (2005) documented a negative association between the number of audit committee meetings and disclosure of earnings management in the United States. Similarly, Bedard, Chtourou, and Courteau (2004) and Lin, Li and Yang (2006) also failed to find any positive association between audit committee meeting frequency and financial reporting disclosure quality. Other studies that also have examined the association between audit committee meeting frequency and disclosure quality include (Vander Zahn & Tower, 2004; Choi et al., 2004; Godwin-Stewart & Kent, 2005; Yang & Krishnan, 2005; Rahman & Ali, 2006).

The expectation from the above explanations backed by agency theory is that audit committee meeting frequency will lead to IFRS 7 compliance by listed financial institutions in Nigeria. Based on this prepositions, the study posits that:

H1d: There is a significant positive relationship between the frequency of audit committee meetings and IFRS 7 compliance by listed financial institutions in Nigeria.

3.3.5 Risk Management Committee Size (RMCS) and IFRS 7 Compliance

Agency theory argues that a risk management committee helps to evaluate and monitor risks identified by management, ensure compliance with company policies and programs and report their findings to the main board (Alles et al., 2005). Subramanian, McManus, and Zhang (2009) argued that a risk management committee (RMC) is a sub-committee of the board of directors. The researchers further observed that a risk management committee exists because of the likelihood of high agency costs as a result of high leverage and greater complexity in a company's operations.

Prior studies have found that firms with risk management committees perform significantly better than those without them (Allies et al. 2005; Subramanian et al. 2009). Furthermore, the existence of a risk management committee attracted the attention of some authors to investigate the relationship between risk management committee and the recent financial scandals in some companies. Subramanian, McManus and Zhang (2009) observed a drastic reduction in fraudulent financial risk reporting with the establishment of a risk management committee. According to the Australian Stock Exchange (ASX), listed firms should establish risk management committees to review the firm's risk assessment and hedging strategies (ASX, 2007). Thus, the primary role of the risk management committees is to oversee the risk management assessment, hedging strategies and risk reporting in order to improve performance of the firm.

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Risk management committee size refers to the number of members serving in the risk sub-committee (Allies et al. 2005), and several scholars have studied the relationship of size with its effectiveness. For example, Alles, Datar, and Friedland (2005) found a sizeable risk management committee helps in reducing time and fatigue and thus increases the committee's working ability to rigorously review management, internal control or audit report and processes and provide better quality disclosure in annual reports. Other studies have also established a positive relationship between size and risk disclosure (Abraham & Cox, 2007; Linsley & Shrives, 2006). Bradbury (1990) and Piot (2005) found a positive relationship between risk management committee size and a company's volume of operation.

Conversely, several authors have found that smaller committee size such as the risk management committee could enhance the quality of earnings (Ahmed et al., 2006; Beasley, 1996; Klein, 2002; Vafeas, 2000). Other studies have found no relationship while some others found negative relationship between size and disclosure of earnings management (Chtourou et al., 2001; Xie et al., 2003). Board committee size is a function of its volume of activities because the more the activities, the greater the sophistication of company's operations and the more demand for board committee members on such committees as the risk management committee to share the responsibilities due to decision complexities (Peasnell et al., 2005).

In addition, Subramanian, McManus and Zhang (2009) found board risk committee functions as a key governance support mechanism in the oversight of the risk management strategies and policies of companies with an independent board chairman and larger boards associated with a separate risk committee.

The code of corporate governance in Nigeria states that. although the presence of a risk management committee is not intended as a rigid rule, its establishment is recommended to serve as a guide to sound corporate practice and behaviour in boards of all listed companies (SEC, 2011). According to the code, this arrangement is done in order to effect greater compliance and align the quality of a company's risk information to international best practice which can lead to improve performance (Pincus et al, 1989; SEC, 2011).

The code of corporate governance in Nigeria is also silent on the number of risk management committee members to be appointed by the board. According to the code, members of risk management committee should include both executive and non-executive directors from the board. This is because as insiders, executive directors have specialist knowledge of risk matters that will help the board of directors carry out their responsibilities for better corporate governance and financial reporting (SEC, 2011).

Based on agency theory and conflicting arguments in the literature, risk management committee size and IFRS 7 compliance must be investigated. So, the following hypothesis is posited:

H2a: *There is a significant positive relationship between risk management committee size and IFRS 7 compliance by listed financial institutions in Nigeria.*

3.3.6 Risk Management Committee Expertise (RMCE) and IFRS 7 Compliance

The SEC code of corporate governance in Nigeria states that listed companies should establish risk management committees as sub-committees of the board directors (SEC,

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2011). The code further states that risk management committee members should be familiar with financial accounting figures and at least one member serving on the committee should have accounting or financial management literacy.

According to the agency theory, a risk management committee entails members with financial literacy who may be specialists in risk management. The theory further postulates that risk management committee members with financial expertise could be able to support corporate governance through in-depth and detailed analysis of a company's risk disclosure and internal control weaknesses (Cohen et al., 2008). Moreover, specialist board committees such as the risk management committee will be able to devote more time and effort towards integrating the various risks organization-wide and evaluate related controls as a whole (Alles et al., 2005; Subramanian, 2006). Thus, researchers view the role of risk management committees in supporting corporate governance as substantially a crucial one.

Subramanian, McManus, and Zhang (2009) found that risk management committees tend to exist in companies with expert independent members having separate risk management committees. Agency theory posits that an accounting and finance expert in risk management committee may improve the effectiveness of the entire board resulting in better accountability and disclosure (Abbott et al., 2004; DeFond et al., 2005; Krishnan & Visvanathan, 2008; Salleh & Stewart, 2012).

Similarly, financial expertise in a risk management committee reduces information asymmetry and restatements of earnings especially in financial institutions that are characterised with risks (Carcello et al., 2006). Bedard, Chtourou, and Courteau (2004)

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and Krishnan (2005) argued that, for risk management committees to meet today's global business challenges, they must have financial experts in their midst to install better internal control systems and forestall earning manipulations.

In a nutshell, accounting and finance experts are good substitutes for good governance practices because capital markets positively put higher premiums on companies that appoint accounting and financial experts in their board committees (Davidson et al., 2004; DeFond et al., 2005). Krishnan and Lee (2009) argued that financial expertise enhances the effectiveness of a risk management committee including its oversight function. Raghunandan, Read and Rama (2001) opined that a risk management committee with at least one member with an accounting or finance background is more likely to have longer meetings with management to review risk proposals and internal auditors to review internal control weaknesses.

Other studies have also revealed positive associations due to the presence of financial expertise on risk management committees. For instance, Xie, Davidson and DaDalt (2003) argued that the presence of financial experts on risk management committee was related negatively with discretionary accruals and increased earnings informativeness. Bedard, Chtourou, and Courteau (2004) and Carcello, Hollingsworth, and Neal (2006) discovered that the presence of at least a member on a risk management committee with financial expertise was associate with the possibility of destructive earnings. McDaniel, Martin, and Maines (2002) saw an effective corporate governance structure in committees with financial expertise such as on risk management committees.

Similarly, Akhigbe and Martins (2006) showed a positive valuation effect of risk management committee with financial expertise in pre-SOX financial institutions. Chang and Sun (2009) supporting these conclusions, found a positive market reaction to the appointment of financial experts to audit and risk management committees after the passage of the Sarbanes-Oxley Act (SOX, 2002). Dhaliwal, Naiker, Zealand, Navissi, East, and Author (2007) found a positive relationship between expertise and accrual quality but no relationship between non-accounting expertise and accrual quality. Carcello, Hollingsworth, and Neal (2006) reported the positive effect of all types of expertise (accounting, financial, managerial, and banking and others) on board committees with weaker governance mechanisms in assisting directors to mitigate earnings manipulation.

In contrast, Yang and Krishnaan (2005) found no significant relationship between earnings quality and all types of expertise. These findings are based on the premise that for an effective oversight of their assigned tasks, board committees like risk management committee require financial experts with knowledge of accounting and auditing.

Therefore, based on agency theory and above discussion, the study expects risk management committee accounting and finance experts to play a significant role in IFRS 7 compliance by listed financial institutions in Nigeria. Thus, the following hypothesis is posited:

H2b: There is a significant positive relationship between risk management committee expertise and IFRS 7 compliance by listed financial institutions in Nigeria.

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3.3.7 Risk Management Committee Independence (RMCI) and IFRS 7 Compliance

In Nigeria, the Securities and Exchange Commission's Code of Corporate Governance highlights the importance of independent directors (SEC, 2011). This code specifically states that all public companies in Nigeria should establish risk management committee and mandates that all executive management and heads of internal audit in attendance at every risk management committee meeting.

Agency theory and resource dependency theory suggest that a risk management committee with independent members provides a potential corporate governance mechanism that impact positively on the disclosure oversight of companies (Chau & Leung, 2006; Carson, 2002). A risk management committee with independent outside members confides with executive management about the state of company's risk management profile and appraises the adequacy and execution of company's risk processes and reports its findings to main board for consideration (Subramanian, 1996).

Independent members serving on a risk management committee provide the board of directors with a unique internal risk monitoring device in mitigating agency conflict between the principals and agents (Jensen & Meckling, 1976; Subramanian, 1996). Harrison (1987) argued that better quality disclosures with respect to internal risks monitoring exists with the presence of independent risk management committee members.

Prior studies have documented better control in companies with more independent outside directors because their oversight function reduces earnings manipulations and

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cases of fraud (Klein, 2002; Uzun et al., 2004). They also provide higher-quality financial reporting disclosure (Chen & Jaggi, 2000). Based on agency theory, Cai, Liu, and Qian (2008) argued that board directors comprises both executive and independent directors with divergent views about risk disclosure. In addition, a company's volume of operations and diversification could also be affected by its committee independence (Coles et al., 2008; Lehn et al., 2009).

The extant literature generally argues for a better monitoring role of outside directors in risk management committees because as independent members they have no affiliation with management. This means that diversified and sophisticated companies like financial institutions require more independent members in committees such as risk management committees so as to reduce agency problems associated with higher population and associated risks (Lehn et al., 2009, Fama, 1980). Moreover, Fama and Jensen (1983) and Linck, Netter, and Yang (2008) argued that outside directors are of paramount importance with respect to diversified investments because they come in with experience and expertise in risk management and other fields.

As outsiders, independent directors may arrive with value-maximizing relationships that can boost a company's fortune in terms of risk mitigation. This argument is consistent with those of Boone, Field, Karpoff and Raheja (2007), Coles et al. (2008) and Linck et al. (2008) who hold the view that board committee independence is related positively to the scope of risk management-related operations especially in the case of financial institutions. Therefore, for large and diversified institutions like banks and insurance companies, additional risk committee members with possibly more independent directors are required to monitor risk management portfolio (Boone et al.,

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2007). Additionally, independent members on a risk management committee give advice on disclosure, new product markets, IT technology and other standards and regulations (Lehn et al., 2009).

Empirically, Boone, Field, Karpoff, and Raheja (2007) documented a negative relationship between monitoring costs and risk management committee independence. Linck, Netter, and Yang (2008) and Lehn, Patro, and Zhao (2009) argued in support of the negative impact of "monitoring costs" on both risk management committee size and risk management committee independence. In contrast, Linck et al. (2008) found a statistically significant and positive relationship between monitoring "private benefits" and independence in committees such as the risk management committee.

Based on the literature, no conclusive evidence exists on the effect of appointing outside directors and the extent of their importance on risk management committee as a new and evolving sub-committee of the board (Bhagat & Black, 2002; John & Senbet, 1998). The expectation is that independent risk management committee directors have fewer conflicts of interest when monitoring managers. However, an excessive number of independent board committees like the risk management committee could damage the advisory role of the committee because it may prevent executives from joining the committee.

Agency theory argues for the inclusion of independent and non-executive directors on board committees because they may enhance the committee's effectiveness in terms of its monitoring function and providing better advice to the CEO (Dalton et al., 1999). Several authors have argued that the presence of more independent risk management

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committee members adds value to a company's fortunes (Borokhovich et al., 1996; Cotter et al., 1997).

Empirically, Baysinger and Butler (1985), Hermalin and Weisbach (1991), and Bhagat and Black (2002) found no relationship between outside directors on board committees (such as RMC) and Tobin's Q. Yermack (1996) and Agrawal and Knoeber (1996) found a negative relationship between outside directors on board committees and Tobin's Q, while Rosenstein and Wyatt (1997) and Klein (1998) found that only insiders add value.

Finally, Abraham and Cox (2007) found independent directors in board committees such as risk management committee to be positive governance risk reporting shareholder representatives. Chen and Jaggi (2000) found positive relationships between board independence and such financial issues such as risk information disclosure in financial statements. Based on the above reported findings and resource dependency theory propositions the expectation is that the presence of independent members on risk management committee will lead to IFRS 7 compliance with disclosure requirements. Therefore, the following hypothesis is posited:

H_{2c}: There is a significant positive relationship between risk management committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.

3.3.8 Risk Management Committee Meeting and IFRS 7 Compliance

The code of corporate governance in Nigeria states that public companies should have RMCs on their boards, and meetings of RMCs should be held at least once every quarter

(SEC, 2011). According to Vafeas, (1999) one particularly important area in risk management framework is the frequency of risk management committee meetings. Conger (1998), Lipton and Lorsch (1992) and Vafeas (1999) opined that the effectiveness of a board committee is a function of the amount of time spent by that board meeting, which is related to the frequency of meetings. Agency theory argues that, when board committees (such as RMC) show more diligence in their oversight functions, the financial reporting process will result in enhanced compliance (Carcello et al., 2002).

Xie, Davidson, and DaDalt (2003) found that board and audit committee meeting frequency is also associated with reduced levels of discretionary current accruals. They concluded that board and audit committee activity may be an important factor in constraining the propensity of managers to engage in earnings management. According to Wincent, Anokhin and Ortqvist (2010), frequent board and committee (such as RMC) meetings are a function of board knowledge and expertise, which translates into positive company outcomes. The complex nature of financial institutions business, the desire for efficient information and the relevance of risk management committees justify the importance of meeting frequency (Andres et al., 2012).

Sarkar, Sarkar, and Sen (2008) and Xie, Davidson and DaDalt (2003) found a negative relationship between board meetings and discretionary accruals. Raghunandan and Rama (2007) observed that more meetings are held in companies that are larger with independent directors and more board committees like risk management committee and others. Based on the positive findings in prior studies and agency theory value enhancement of meeting frequency, the expectation is that risk management committee

members meeting frequency will lead to IFRS 7 compliance by listed financial institutions in Nigeria. Therefore, the following hypothesis is posited:

H2d: There is a significant positive relationship between risk management committee meeting frequency and IFRS 7 compliance by listed financial institutions in Nigeria.

3.4 Block holder Ownership as a Moderator

Block holder ownerships are those investors (both institutional and individuals) with huge financial resources, and hiring abilities, diversified portfolios and expert staff, which enable them to accommodate more risks. Block holders provide an interesting and economically important relationship for the financial institutions of Nigeria because of their large presence in capital market in recent years. This is so because, block investors control not less than 46% of the total stock of Nigerian financial institutions and are given high prominence in the Securities and Exchange Commission's Code of Corporate Governance (SEC, 2011; Sunusi, 2012). Apart from the independent variables of the study, block holder ownership is introduced as external governance variable to moderate positively the relationship between the independent variables (audit committee and risk management committee) characteristics and IFRS 7 compliance consistent with other scholars (Al-Dhamari et al., 2014; Kurt et al., 2013).

Block holder ownership is introduced as a moderating variable in this study because such owners have been found to be an influential investment constituency, which has a huge amount of wealth and financial expertise (Davis & Thompson, 1994; Grundfest, 1993). Furthermore, Carpenter (2002) argued that the inconsistency in disclosure and performance relationship shown in prior studies may be due to omission of some

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important variable(s). Similarly, other researchers opined that, instead of examining a direct relationship, variables known to impact the relationship should be explored (Auh & Menguc, 2006; Talk et al., 2010; Wincent et al., 2010).

In addition, financial institutions in developing countries are faced with inadequate capital for an effective discharge of their intermediating responsibilities (IMF, 2013). In order to achieve the desired results, they require huge amounts of financing, which can be sourced through various channels (IMF, 2013; Sunusi, 2012). Due to the size of their investments, these channels can employ the best personnel and influence the oversight functions of activities of the board and management in relationship to IFRS compliance.

Prior studies on the role of block holder ownership have documented positive results with respect to compliance. For instance, Naiker and Navissi (2006) reported the ability of block investors to have power through their appointed representatives on the board to monitor the management of New Zealand companies. Mallorqui and Martin (2011) and Bos and Donker (2004) argued that institutional investors with block ownership enhanced corporate effectiveness. Ajinkya, Bhojraj, and Sengupta (2005) documented positive earnings forecasts properties and Barako (2007) found that block holders enhanced the level of disclosure for listed companies in Kenya.

Moreover, Baron and Kenny (1986) argued that, whenever an inconsistency existed in findings, a suitable moderating variable should be introduced to strengthen the relationship between the independent and the dependent variable. Saleh, Abdul Rahman

and Hassan (2009) empirically tested the relationship between ownership structure and performance in the Malaysian setting.

Therefore, based on the mixed findings in earlier studies on the relationship between corporate governance characteristics and IFRS compliance this current study proposes that consistent with Saleh et al. (2009) that block holder ownership can play a significant role in the audit committee and risk management committee oversight function. Block holder ownership can also lead to more IFRS 7 compliance with disclosure requirements by listed financial institutions in Nigeria. Agency theory stipulates that block holder ownership plays a vital role in shaping the nature and extent of corporate risk and investment behavior of companies (Fama & Jensen, 1983; Shah et al., 2012).

Therefore, a study of the moderating effects of block holder ownership on the financial institutions of a developing country such as Nigeria with different cultural diversity, economic development and political norms may provide a better understanding of blockholder ownership and IFRS 7 disclosure relationship. Hence, consistent with Baron and Kenny (1986) and findings in literature, this current study expects block holder ownership to act as a positive moderating variable between audit committee characteristics and IFRS 7 compliance and between risk management committee characteristics and IFRS 7 compliance by listed financial institutions in Nigeria. Therefore, the following hypothesises is posited:

H$_3$: *Block holder ownership positively and significantly affects IFRS 7 compliance of listed financial institutions in Nigeria.*

H$_{3a}$: *Block holder ownership positively and significantly moderates the relationship between audit committee size and IFRS 7 compliance of listed financial institutions in Nigeria*

H$_{3b}$: *Block holder ownership positively and significantly moderates the relationship between audit committee expertise and IFRS 7 compliance of listed financial institutions in Nigeria.*

H$_{3c}$: *Block holder ownership positively and significantly moderates the relationship between audit committee independence and IFRS 7 compliance of listed financial institutions in Nigeria*

H$_{3d}$: *Block holder ownership positively and significantly moderates the relationship between audit committee meeting frequency and IFRS 7 compliance of listed financial institutions in Nigeria*

H$_{3e}$: *Block holder ownership positively and significantly moderates the relationship between risk management committee size and IFRS 7 compliance of listed financial institutions in Nigeria.*

H$_{3f}$: *Block holder ownership positively and significantly moderates the relationship between risk management committee expertise and IFRS 7 compliance of listed financial institutions in Nigeria.*

H$_{3g}$: *Block holder ownership positively and significantly moderates the relationship between risk management committee independence and IFRS 7 compliance of listed financial institutions in Nigeria.*

H$_{3h}$: *Block holder ownership positively and significantly moderates the relationship between risk management committee meeting frequency and IFRS 7 compliance of listed financial institutions in Nigeria.*

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The hypothesized variables of the study and their expected signs are shown in Table

3.1 below.

Table 3.1
Summary of Research Hypothesis

S/N	Hypothesis	Expected Sign
1	H1a: There is a significant positive relationship between audit committee size and IFRS 7 compliance by listed financial institutions in Nigeria.	+
2	H1b: There is a significant positive relationship between proportion of expertise in audit committee and IFRS 7 compliance by listed financial institutions in Nigeria.	+
3	H1c: There is a significant positive relationship between audit committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.	+
4	H1d: There is a significant positive relationship between the frequency of audit committee meetings and IFRS 7 compliance by listed financial institutions in Nigeria.	+
5	H2a: There is a significant positive relationship between risk management committee size and IFRS 7 compliance by listed financial institutions in Nigeria.	+
6	H2b: There is a significant positive relationship between risk management committee expertise and IFRS 7 compliance by listed financial institutions in Nigeria.	+
7	H2c: There is a significant positive relationship between risk management committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.	+

Table 3.1 (continued)

S/N	Hypothesis	Expected sign
8	H2d: There is a significant positive relationship between risk management committee meeting frequency and IFRS 7 compliance by listed financial institutions in Nigeria.	+
9	H3: Block holder ownership positively affect IFRS 7 compliance by listed financial institutions in Nigeria.	+
	H3a: Block holder ownership moderates the relationship between audit committee size and IFRS 7 compliance by listed financial institutions in Nigeria.	+
	H3b: Block holder ownership positively moderates the relationship between audit committee expertise and IFRS 7 compliance by listed financial institutions in Nigeria.	+
	H3c: Block holder ownership positively moderates the relationship between audit committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.	+
	H3d: Block holder ownership positively moderates the relationship between audit committee meeting frequency and IFRS 7 compliance by listed financial institutions in Nigeria.	+
10	H3e: Block holder ownership positively moderates the relationship between risk management committee size and IFRS 7 compliance by listed financial institutions in Nigeria.	+
	H3f: Block holder ownership positively moderates the relationship between risk management committee expertise and IFRS 7 compliance by listed financial institutions in Nigeria.	+
	H3g: Block holder ownership positively moderates the relationship between risk management committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.	+
	H3h: Block holder ownership positively moderates the relationship between risk management committee meeting frequency and IFRS 7 compliance by listed financial institutions in Nigeria.	+

3.5   Measurement of Variables

This section discusses measurements of variables of the study. They include the dependent variable, the independent variables and the control variables.

3.5.1   Dependent Variable Measurement

The dependent (criterion) variable of this study is International Financial Reporting Standards 7 (IFRS 7) financial instruments disclosure compliance measured using disclosure checklist of IFRS 7 disclosure requirements provided by PwC (2013) consistent with prior studies (Abdullah, 2013; Hodgdon et al. 2008, 2009; Hossain and Sultana, 2014; Tsalavoutas, 2009, 2011). The use of disclosure checklist in compliance studies is also supported by a commissioned study of the World Bank on the assessment of financial reporting stability of banks in Nigeria (Huang, 2006).

Previous research employs different methods of disclosure checklist construction to measure the information contents in annual reports. The methods used vary considerably among the studies due to differences in specified information items (Al-Shammari, 2011; Barako, 2007; Hodgdon et al., 2009; PwC, 2013). There is no agreed theory on number and selection of items to include in a disclosure checklist (Wallace *et al*. 1994). According to PwC (2013) disclosure checklist must take into cognizance both International and existing local regulations. The use of disclosure checklist in this study is supported by prior compliance studies (Abdullah, 2013; Hodgdon et al. 2008, 2009; Hossain, 2014; Tsalavoutas, 2011).

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3.5.2 Choice of Disclosure Scoring Method

There are three principal disclosure scoring methods found in the literature (Hodgdon et al. 2009). These are the dichotomous unweighted compliance method, the partial compliance (PC) method and the Saidin index method. This study adopts the dichotomous unweighted scoring procedure in line with Cooke (1989) who was the first to construct and use the model now known as Cooke index. The use of the dichotomous method is as a result of its objectivity. The technique gives equal prominence to each item of disclosure thereby reducing subjectivity and provides a neutral stand on each disclosure item (Wallace & Nasser, 1994; Owusu-Ansah, 1998; Owusu-Ansah & Yeoh, 2005). Besides, the result of this method has been found to be almost similar to those of other weighting systems (Firth, 1979; Chow & Wong-Boren, 1987; Prencipe, 2004). In addition, the framework has been used in several world-class studies with significant findings (Basel Report, 2004; Barako, 2007; Huang, 2011; Wallace, 1988). Moreover, the present study uses only a single dependent variable (i.e., IFRS 7 compliance) as in other prior studies (Barako et al. 2006; Wallace, 1988). Therefore, the unweighted scoring technique is found to be much more appropriate.

The dichotomous technique is an unweighted disclosure index of measurement where an item is scored one (1) if it is disclosed or zero (0) if not disclosed or not applicable (Abdullah, 2013; Yeoh, 2005). Under the dichotomous approach, no sanction exists for not disclosing an item that is either not relevant or not available (Abdullah, 2013; Owusu-Ansah, 1998). Item of disclosure is computed as the ratio of total items disclosed and of the maximum possible number of items applicable to company of study using the formula:

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$$CS_J = \frac{T \sum_{i=1}^{m} di}{M = \sum_{i=1}^{n} di}$$

Where:

CS$_J$ = total compliance score for each company in which 0≤ CSj ≤ 1

T = Total number of items disclosed (d$_i$)

J = name of the company under consideration

M ≤ n; where m is the total number of applicable items the company j is to disclose

3.5.3   Checklist Construction of IFRS 7 Compliance

In this study, the researcher adopts the IFRS compliance checklist of PwC (2013) and follows the empirical research studies in highly ranked journals to extract the IFRS 7 checklist (Landsman, Lang, & Yeh, 2007). In all, 132 disclosure required items were extracted based on the PwC IFRS compliance checklist. The list was checked three times and certified by two professional accountants in practice. Hence, the disclosure checklist is considered error free, reliable and ensures consistent measurement across time and instruments (Abdullah, 2013; Sekaran, 2003).

Following previous studies (Al-Shammari, 2014; Hossain & Sultana, 2014), the 132 disclosure required items are further divided into five different risks categories based on general risks (34 items), market risks (21), liquidity risks (10), credit risks (21) and financial risks (46 items). The classification of the five groups of risks is presented in Appendix A.

3.6   Operationalisation of Variables

All the study's variables (dependent, independent, and moderating and control variables) are operationalized with their respective measures and references as shown in Table 3.2 below.

Table 3.2
Measurement of Variables

S/N	Characteristics	Measurement Criteria	Sources
1	IFRS 7 Compliance (IFRS)	Total disclosure index score	PwC (2013)
2	Audit committee size (ACS)	Total number of AC members	Adam & Mehran (2008)
3	Audit committee expertise (ACE)	Proportion of members with accounting & finance expertise in the audit committee	Felo et al. (2003)
4	Audit committee Independence (AC I)	Proportion of non-executive/independent comm. Members	Andres et al. (2012)
5	Audit committee meeting frequency (ACM)	Number of committee deliberations during the year. Dummy "1" for 4 & above," 0" if otherwise	Raghunandan & Rama, (2007)
6	Risk Management committee size (RMCS)	Total number of RMC members	Andres et al. (2012)
7	Risk Management committee expertise (RMCE)	Proportion of members with account & financial expertise in RMC	Naiker & Sharma, (2009)
8	Risk Management committee independence (RMCI)	Proportion of independent/ non-executive committee members	Huang &Theravada, (2010)
9	Risk Management committee meeting frequency (RMCM)	Number of committee meetings during the year. Dummy "1" for 4 & above," 0" if otherwise	Adam & Mehran, (2005)

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S/N	Characteristics	Measurement Criteria	Sources
10	Block holder ownership (BLOC)	5% or more shares held by investors.	Dou et al. (2013)
11	Company size (FSIZE)	Measured by the natural logarithm of total asset	Carpenter, (2002)
12	Profitability (PROFIT)	Net profit divided by year-end owner's equity	Mollik & Bepari, (2012)
13	Leverage (LEV)	Total liability divides by total assets	Hodgdon et al. (2009)
14	Audit quality (AUDQ)	Measured by Big4 (1) & Non-Big4 (0)	Latridis et al., (2009)
15	Industry	"1" for Banks & "0" insurance	Lopes & Rodrigues, 2007

3.7   Research Design

Based on the study's research objectives, a research plan describes the nature of data collected and which instruments to use. Kothari (2011) describes research design as a framework that specifies an economic procedure for collecting and analysing relevant information for a proposed study. Broadly, three types of business research methodology exist in the extant literature. These include: 1) descriptive, 2) exploratory and 3) hypothesis testing (Neuman, 2005). The selection of which method to use depends on the research problem (Kallet, 2004; Sekaran, 2003). These authors argue that exploratory research can be used to shed more light on A particular research problem but fail to provide conclusive evidence. Descriptive research is conducted based on the perception and nature of the issue at hand so that A full picture of the problem can be obtained. Last, hypothesis testing, otherwise known as causal research, describes the nature of association among variables being examined using statistical inferences (Neuman, 2005).

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This study focuses on both descriptive relationships and causal relationships with the aim of examining the level and extent to which AC characteristics, RMC characteristics and the moderating effect of blockholder ownership influence AC characteristics and RMC characteristics on IFRS 7 with respect to compliance by Nigerian listed financial institutions. To achieve the research objectives, this study employs archival evidence in which quantitative data and CG information is obtained through secondary sources in annual reports, the Nigerian stock exchange fact book or hand collected data from the corporate headquarters of the sampled financial institutions. The study covers only listed financial institutions (banking and insurance companies) within the period of three years from 2012 to 2014. This is because IFRS 7 became effective in the year of adoption, which was 2012, in Nigeria while the available annual reports are up to December, 2014.

3.7.1 Population of the Study

The populations of this study comprises 20 banks and 30 insurance companies that were listed on the Nigerian Stock Exchange (NSE) as of December 31, 2012. They are the target population because financial instruments disclosure in IFRS 7 is associated with risk reporting and banks and insurance business is associated with risks. Therefore, this study targets listed banks and insurance companies for investigating the risk associated with IFRS 7 financial instruments disclosure. Table 3.3 presents the target population.

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Table 3.3
Sampled Financial Institutions in Nigeria

S/N	BANKS	S/N	INSURANCE	S/N	INSURANCE
1	Access	21	FBN Insurance	41	Niger
2	Diamond	22	AIICO	42	Oasis
3	Eco	23	Lead way	43	Prestige
4	Fidelity	24	Consol. Hallmark	44	Regency
5	First	25	Continental Re	45	Sovereign
6	First City	26	Cornerstone	46	Starco
7	Guaranty Trust	27	Custodian	47	Standard
8	Skye	28	Equity Assurance	48	Unic
9	Stanbic IBTC	29	Gold link	49	Unity Kapital
10	Sterling	30	Great Nigeria	50	Universal
11	UBA	31	Mansard		
12	Union	32	Guinea		
13	Unity	33	Inter-Wapic		
14	NPF Micro finance	34	International Energy		
15	Wema	35	ADIC Insurance		
16	Zenith	36	Lasaco		
17	Abbey Savings	37	Law Union		
18	Aso Savings	38	Linkage		
19	Resort Savings	39	Mutual		
20	Union Homes	40	NEM		

3.7.2 Sample Size

Aboagye-Otchere (2013) describes sample size as part of the population that is used for the study in order to draw inference on the entire population. Sample size or element is selected if the population is so large that it could not be adequately covered in the study due to certain constraints such as time, data and financial resources (Kothari, 2011). However, with respect to this study, the entire population (50) formed the sample size or the elements. This means that, the whole population is also the sample which will be covered by the study due to data and time availability. It should be noted that, since the entire population is also the sample size, the study does not require sampling technique.

3.7.3   Techniques of Data Analysis

This study employs the multiple regression technique to analyse the data based on the application of panel data from financial institutions using Stata software. Stata software was selected for this study because it is free and one of most commonly used software in panel data study. The panel data methodology was employed because panel data are more informative, more efficient with higher degree of freedom and lesser collinearity consistent with prior compliance literature (Afify, 2009; Amoako & Asante, 2012; Hodgdon et al. 2009; Hossain, 2014).

The data for this study were analysed using descriptive statistics on details of the study's sample and ordinary least squares regression analysis (OLS). This is done in order to establish the relationship between the study's variables based on the hypothesis earlier developed. Moreover, OLS has an additional advantage of considerable heterogeneity across variables in the panel and allow researchers to pool information selectively (Pedroni, 2000). Additionally, the study applies multiple regression on the panel data to ascertain the level and extent of the association and the relationship between the study's variables and IFRS 7 compliance. Moreover, Hair, Black, Babin and Anderson (2010) insisted that multiple regression analysis is the best framework for use with a single dependent variable and multiple independent variables as in this study.

Furthermore, Sekaran and Bougie (2011) opined that multiple regression analysis is a multivariate technique that gives an objective assessment of the relationship between dependent and independent variables. This study's dependent variable is IFRS 7 compliance that relates with two independent attributes (audit committee characteristics

and risk management committee characteristics) each having four dimensions (size, expertise, independence and meeting frequency) with a moderating variable (block holder ownership) on the audit committee characteristics and risk management committee characteristics.

Finally, the regression model was used to test relationships between the dependent variable (IFRS 7 compliance) with the independent variables of audit committee (AC) attributes and risk management committee (RMC) attributes, the moderating variable of block holder ownership on AC and RMC and the control variables (firm attributes). The regressions equation is depicted as follows:

$$\text{IFRS } 7_{it}= \beta_0 + \beta_1 ACS_{it} + \beta_2 ACE_{it} + \beta_3 ACI_{it} + \beta_4 ACM_{it} + \beta_5 RMCS_{it} + \beta_6 RMCE_{it} + \beta_7 RMCI_{it} + \beta_8 RMCM_{it} + \beta_9 BLOC + \beta_{10} BLOC_{it}*ACS_{it} + \beta_{11} BLOC_{it}*ACE_{it} + \beta_{12} BLOC_{it}*ACI_{it} + \beta_{13} BLOC_{it}*ACM_{it} + \beta_{14} BLOC_{it}*RMCS_{it} + \beta_{15} BLOC_{it}*RMCE_{it} + \beta_{16} BLOC_{it}*RMCI_{it} + \beta_{17} BLOC_{it}*RMCM_{it} + \beta_{18} FSIZE_{it} + \beta_{19} PROFIT_{it} + \beta_{20} LEV_{it} + \beta_{21} AUDQ_{it} + \beta_{22} INDUS_i + \mathcal{E}it$$

Where:

IFRS 7	=	Financial Instruments disclosure
ACS	=	Audit committee size
ACE	=	Audit committee expertise
ACI	=	Audit committee independence
ACM	=	Audit committee meeting frequency
RMCS	=	Risk management committee size
RMCE	=	Risk management committee expertise
RMCI	=	Risk management committee independence

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RMCM	=	Risk management committee meeting frequency
BLOC	=	Block holder ownership
FSIZE	=	Firm size
PROFIT	=	Profitability
LEV	=	Leverage
AUDQ	=	Audit quality
INDUS	=	Industry
B	=	Coefficients in the regression model
ε	=	Error term
i	=	Entity (Firm)
t	=	Time period

3.8 Summary

This chapter discussed the research framework and the research methodology. The hypothesis development of this chapter was based on the relationship between audit committee characteristics (size, expertise, and independence and meeting frequency), risk management characteristics (size, expertise, independence and meeting frequency) and their direct relationship to IFRS 7 compliance while blockholder ownership was introduced to moderate the relationship between audit committee characteristics and risk management committee characteristics and IFRS 7 compliance.

The entire hypotheses were developed based on the agency theory and the resource dependency theory. Beside these theories, hypotheses were also developed based on prior empirical literature concerning the relationship between compliance and audit committee and risk management committee characteristics. In order to test all the

hypotheses, the second part of the chapter discussed the methodology employed to conduct this study. This second part described the research design, the population of the study, sample size and method of determining the sampled financial institutions. The chapter ended with the techniques to be used for data analysis.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1   Introduction

This chapter presents and discusses the study's findings with respect to the sampled financial institutions in Nigeria comprising 20 banks and 30 insurance companies for 3 years each from 2012-2014. Section 4.2 presents descriptive statistics of both the dependent and independent variables of the study. This is closely followed by Section 4.3 that examines the association between variables of study. Section 4.4 presents and deliberates on results of multivariate analysis testing the hypotheses. Section 4.5 conducts a sensitivity analysis of the distinct characteristics of the study. Section 4.6 discusses the findings of the study in the light of formulated hypotheses. Section 4.7 discusses the findings on the relationship between the study's control variables (firm size, profitability, leverage, audit quality and industry) and IFRS 7 compliance. The robustness checks of some independent variables are discussed in Section 4.8 while Section 4.9 discusses the individual coefficients of banks and insurance. The chapter ends with a summary of the findings.

4.2   Descriptive Statistics

This section discusses and presents the descriptive statistics for both the dependent and independent variables of the study. This involves transformation of raw data into a form that provides information to describe a set of factors in a situation (Sekaran, 2006). Descriptive statistics are used to determine the frequency of phenomena, the mean score of the data collected and the extent of variation of a given variable. Hair, Black, Babin, and Anderson (2010) argued that a descriptive approach is normally employed to define

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some circumstances or attributes by giving measures to certain action or event.

4.2.1   Dependent Variable

Table 4.1 reports the descriptive statistics for IFRS 7 financial instruments disclosure requirements of 20 banks and 30 insurance companies that comprise the sample of this study from 2012 to 2014. The mean compliance level with disclosure requirements for the three years (2012 - 2014) was 0.51, with a maximum value of 0.86 and a minimum value of 0.29. This implies that the average IFRS 7 compliance rate of listed financial institutions in Nigeria was slightly above 51%. Furthermore, the observed maximum value of 86% for the IFRS 7 compliance rate indicates that none of the sampled companies fully complied with the standards requirements during the period of study.

Table 4.1 also further reveals the lowest IFRS 7 compliance of 29% for the sampled companies over the period this study covers. Although the average figures for disclosure showed an average of 0.51, the IASB framework argued that there should be a 100% compliance because disclosure items were mandatory starting from 2007 (IASB, 2013).

Table 4.1
Descriptive statistics of level of IFRS 7 compliance

IFRS 7	2012	2013	2014	Average
Mean	0.461	0.511	0.568	0.510
Std. Dev.	0.175	0.175	0.171	0.174
Maximum	0.810	0.850	0.910	0.857
Minimum	0.250	0.280	0.340	0.290

Besides the overall statistics of IFRS 7 compliance requirement variable provided in Table 4.1, the annual level statistics of the variable is also displayed. Based on the table,

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the average level of compliance of the sampled financial institutions in 2012 was 46% compared to a higher average of 51% for 2013. As for the year 2014, a further improvement in compliance with the requirements of IFRS 7 can be observed by the higher average value of 57% for the sampled financial institutions. Although a small and steady increase was exhibited in the rate of compliance, there is evidence of a deviation from the IRFS7 rule that calls for regulatory intervention. The result is, however, in line with other studies of developing countries. For instance, Al-Saqqa and Sawan (2013) found a gradual improvement in the level and quality of IFRS 7 information disclosure in UAE in their 2012 study.

Overall, the results from Table 4.1 showed an increase of 11% points from the initial adoption period, 2012 to 2014, which is the end of this study's reporting period. However, the marginal increase in the IFRS 7 compliance by listed financial institutions in Nigeria may be the result of a gradual and growing familiarity with the financial reporting regime through in-house training and regulatory enforcement (Shehu & Masunda, 2015). Moreover, the standard deviation in 2012 and 2013 remained the same at 17.5%, with a gradual decrease of 0.004% recorded in 2014. This result revealed that the disparity in level of compliance was reduced from 2012 to 2014 indicating improvement in the level of compliance over the study period.

Furthermore, the maximum level of compliance by all the financial institutions in the studied sample was 81% and 85% in 2012 and 2013 respectively showing an increase in level of compliance by 4% points. However, the compliance level in 2014 was 91% showing an increase of 10% points between the compliance level of 2012 and that of 2014. The minimum level of compliance was 25% in 2012, 28% in 2013 and 34% in

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2014. This further shows gradual improvement in the compliance rate. To put it differently, there was a 3%-point increase in the compliance rate between 2012 and 2013. This compares with a 9%-point increase from 2012 to 2014.

In summary, the results showed a steady increase in level of compliance for the three years under study. This increase in the level of compliance is an indication that, although financial institutions in Nigeria are following the new regulatory framework, the level of IFRS 7 compliance is not very encouraging. The results indicate that much needs to be done in the way of regulatory enforcement in Nigeria to achieve a compliance rate of 100% with IFRS 7 disclosure requirements (Al-Shammari, 2011; Ballas & Tzovas, 2010; Glaum & Street, 2003; Street & Bryant, 2000).

Recent years have witnessed a proliferation of studies on the compliance of IFRS 7 requirements. For instance, Al-Akra et al. (2010) the level of compliance for 80 Jordanian non-financial listed companies level of compliance to be 79% in 2004. Alanezi and Abdulbushi (2011) documented a compliance level of 72% on a sample of 68 non-financial companies listed on the Kuwaiti Stock Exchange (KSX) at the end of 2007 financial period. In their cross-country research, Yu (2010) found a compliance rate of 99.5% in Australia, 99.25% in Philippines and 100% in Finland, New Zealand and Greece in 2007. Results from the work of Yu further revealed that the United Kingdom and Germany recorded comparatively lower rates of 80.8% and 90.7% respectively. However, the disclosure rate for French non-financial companies in 2007 was similar to the average compliance rate of Nigerian financial institutions.

Furthermore, the level of compliance was 94%, 81% and 82% in Australia, Germany and Gulf Cooperation Council Member States, respectively (Tower et al., 1999; Glaum & Street, 2003; Al-Shammari et al., 2008). Similarly, Al-Shammari (2011), Juhmani (2012) and Street and Gray (2002) found levels of compliance to be 82%, 81% and 74% in Kuwait, Bahrain and Switzerland respectively. Moreover, Jordan, Bangladesh and Saudi Arabia recorded lower compliance rate of 63%, 44% and 33% respectively (Naser, 1998; Akhtaruddin, 2005; Alsaeed, 2006). However, Venezuela a developing economy, trailed behind with a compliance rate of 17.5%.

However, in contrast to the type of firms covered in the above mentioned studies, which were basically non-financial, the current study covers a sample of financial institutions that are very likely to present different results because of differences in regulatory enforcement (Andres & Vallelado, 2008; Andres et al. 2012). Furthermore, this study used 132 IFRS 7 required financial instruments disclosure items professionally developed by PricewaterhouseCoopers (PwC) in 2013 as distinct from, for instance, the self-constructed disclosure checklist of 22 items that Atanasovski et al., (2015) developed.

Even so, results of the present study compared favourably with the level of compliance with respect to disclosure requirements observed in some Nigerian compliance studies and others across the globe (Juhmani, 2012; Kantudu, 2005; Zango et al., 2015). Moreover, the finding showed little difference due to sample size, geography or differences in the behaviour of data with those of other country's study (Hodgdon et al., 2009). However, based on the continuous increase in the level of compliance throughout the period of this study, a distinct possibility exists for full compliance by

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the sampled financial institutions in a few years based on the existing speed, rate, and trajectory of compliance. Furthermore, the compliance scores of IFRS 7 are presented based on the types of risks. These risks are general, market, liquidity, credit and financial risks earlier explained in details. The statistics shown in Table 4.2.

Table 4.2
Compliance Score Based on Types of Risks Based on 20 Banks & 30 Insurance Companies

Type of Risk	2012			2013			2014		
	Mean	*t*-stat	*p*-val.	Mean	*t*-stat	*p*-val.	Mean	*t*-stat	*p*-val.
General		1.759*	0.085		1.909*	0.062		5.271***	0.000
Banks	0.657			0.704			0.788		
Insurance	0.581			0.632			0.607		
Market		0.132	0.896		0.457	0.650		2.425**	0.020
Banks	0.370			0.436			0.491		
Insurance	0.362			0.413			0.386		
Liquidity		1.841*	0.072		0.171	0.862		5.094***	0.000
Banks	0.360			0.307			0.440		
Insurance	0.243			0.300			0.270		
Credit		3.420***	0.001		2.260**	0.028		5.964***	0.000
Banks	0.654			0.682			0.824		
Insurance	0.498			0.589			0.543		
Financial		1.789*	0.080		1.639	0.108		4.369***	0.000
Banks	0.613			0.650			0.744		
Insurance	0.517			0.577			0.561		

Note: ***, ** and * represent significance level at 1%, 5% and 10% respectively.

Table 4.2 reports the analysis of compliance scores based on types of risks. For general risk, the difference in mean between banks and insurance for the initial adoption period of 2012 was statistically significant at the 10% level. This means that banks complied more with IFRS 7 financial instruments disclosure than insurance companies as regards to general risks. The difference in mean between banks and insurance as regards general risks for 2013 was also statistically significant at 10% while that of 2014 was statistically significant at the 1% level. The results show a steady increase in

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compliance with regards to general risks for the three years of this study. Furthermore, the level of compliance was statistically more observed in banks compared to insurance companies. This increase may be due to the regulatory enforcement of IFRS 7 financial instruments disclosure requirements and others such as the banks and other financial institutions act (BOFIA).

The same table shows the trend of IFRS 7 compliance with respect to market risks for the period of 2012 to 2014 whose level of compliance was positive but not significant in 2012 and 2013. This may be due to the Nigerian banking crisis of 2004 and the global financial crisis that led to a huge withdrawal of investments by foreign and some local investors from the Nigerian capital market. However, a statistically significant increase of 5% was recorded between the sampled financial institutions with the banks having higher means as compared to the insurance companies at 5% level of significance in 2014. This result shows that the sampled financial institutions in Nigeria did not take market risks into consideration during the initial period of IFRS adoption in 2012.

However, the need for market risks compliance by Nigerian financial institutions became apparent after the financial period of 2013 hence the statistically significant increase in level of IFRS 7 compliance in 2014 especially in the banking sub-sector in contrast to the insurance industry. The higher *t*-value in 2014 is a further indication that financial institutions were paying more attention to market risks in comparison with the prior years.

Similarly, in terms of liquidity risks, a significant increase in the level of IFRS 7 compliance was recorded in the banking sector than in the insurance industry at a 10%

level of significance during 2012. A marginal but not significant increase in the banking sector than insurance was shown in 2013. However, the increase in IFRS 7 compliance on liquidity risks received a boost in 2014 wherein an increase in the mean level of compliance was statistically recorded at the 1% level of significance. This result shows that the increase in compliance based on liquidity risks may be due to an increase in training and familiarity in the application of the IFRS 7 financial instruments disclosure principle. This increase might also be due to more intense regulation by the apex regulatory bodies for listed financial institutions in Nigeria.

In the same vein, a statistically significant increase in IFRS 7 compliance was recorded by the difference in means between banks and insurance companies at a 1% level of significance in 2012 in the case of credit risks reporting of banks than insurance companies. Moreover, a slight increase was recorded in 2013 with higher means in the banking than in the insurance industry at a 5% level of significant. Nonetheless, 1% statistically significant increase in IFRS 7 compliance was documented in the banking industry than the insurance sector with mean of banks higher than those of the insurance industry in 2014.

The result reveals that banks conformed more with IFRS 7 compliance with respect to credit risk disclosure requirements than did insurance companies in the sample. This shows that the level of compliance record was statistically more in banks compared with insurance companies. The increase in level of compliance among banks may be due to increased regulatory enforcement by CBN as a result of non-performing credits that caused the liquidation of many financial institutions forcing consolidation in the Nigerian financial sector in 2004.

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Furthermore, financial risks disclosure recorded a statistically significant increase in compliance at the 10% level in 2012. Whereas no statistically significant difference existed in the level of compliance in 2013, banks recorded higher IFRS 7 financial risk compliance than did the insurance industry in 2013 as evident from their mean values. However, the difference in mean between banks and insurance in 2014 was statistically significant at the 1% level. Hence, the level of compliance was statistically observed to be more in banking than in the insurance sub-sector. According to Sunusi (2012), the increase in financial risks of financial institutions in Nigeria was a result of the consolidation exercise in which an increase in the shares of capital of financial institutions by the regulatory authorities rose from ₦500m to ₦1b ($2.9m to $5.8m) for insurance and from ₦2b to ₦25b ($114.3m to $1.5b) for banks, at an exchange rate of ₦172 per $1 US dollar.

The rise in compliance might also have been the result of awareness by the board of directors and management that financial risk was the main cause of the global financial crisis (Al-Abbas, 2009). Hence, the need for intense regulatory enforcement of IFRS 7 financial instruments disclosure requirements to forestall future occurrence became apparent. Arouri, Muttakin, and Hossain (2011) observed that compliance levels based on firm characteristics in financial institutions was due to the explicit guidelines contained in IFRS 7 disclosure required items.

Overall, looking at Table 4.2 the observation can be made that market risk and liquidity risk in both the banking and insurance sub-sectors was lower when compared to the other risk types depicted in the table. The reason may not be unrelated to the almost total failure in the Nigerian capital market where illiquidity drove many firms out of

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business, which ultimately lead to the recapitalisation of financial firms as earlier stated. According to Sunusi (2011), the failure in corporate governance and regulatory enforcement led financial institutions in Nigeria to go into so many other businesses outside the purview of regulation. This resulted in low mean of liquidity and market risks respectively.

The study further proceeded to test the mean differences in company characteristics (firm size, leverage, profitability and audit quality) between high and low complying firms within each sub-sector (banking and insurance). For the categorization of firms on the basis of IFRS 7 compliance rate, the researcher considered firms with a compliance rate above the group mean as high complying firms and considered firms with a compliance rate below the group mean as low complying firms.

Table 4.3
Result of analysis in terms of company characteristics

Variable	Banks				Insurance companies			
	N=60	Mean	t-stat.	p-val.	N=90	Mean	t-stat.	p-val.
Leverage			6.446***	0.000			0.063	0.950
High	53	0.703			25	0.415		
Low	07	0.321			65	0.416		
Firm Size			7.277***	0.000			-0.019	0.985
Large	50	0.710			23	0.416		
Small	10	0.325			67	0.415		
Profitability			2.720***	0.009			-0.356	0.723
High	42	0.697			56	0.412		
Low	18	0.551			34	0.418		
Audit quality			2.331**	0.023			0.483	0.631
Big4	54	0.676			30	0.421		
Non-Big4	06	0.490			60	0.413		

Note: ***, **, and * represent significance at 1%, 5% and 10% levels respectively.

Table 4.3 depicts the analysis of significant differences of financial institutions in

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Nigeria with respect to listed banks and insurance industry characteristics based on leverage, firm size, and profitability and Big4 and non-Big4 as a proxy for audit quality. For mean of banking industry in the sample, the difference between large and small firm size, high and low leverage, profitability as well as audit quality was statistically significant at the 1% level except for Big4 which was significant at the 5% level.

Similarly, the analysis in respect of insurance companies in the sample indicates that the mean of industry characteristics based on leverage, firm size, and profitability and Big4 and non-Big4 had no significant relationship as shown in Table 4.3.

Further observation from Table 4.3 shows that in terms of leverage, the means of banks with high leverage was statistically different from that of low leveraged banks. The result from the t-test of the mean of the two groups is statistically significant at 1% level of significance. This shows a statistical difference in the mean of the high and the low leveraged banks. Furthermore, the mean of insurance in terms of leverage shoed no statistically significant difference between low and high leveraged insurance companies in the sample. This indicates that the result from the t-test with respect to the mean of the two groups was statistically not significant.

Moreover, Table 4.3 shows that in terms of firm size, the mean of large sized banks was statistically different from that of small sized banks. Table 4.3 shows that the t-test of the mean of the two groups was statistically significant at the 1% level. This shows that a statistically significant difference existed between means of the large-sized firms compared with the small-sized firms in the Nigerian financial institutions with respect to banks. However, the mean of insurance companies in terms of firm size showed no

statistically significant difference between large and small insurance companies in the sampled Nigerian financial institutions. This shows that the result from the t-test with respect to the mean of the 2 groups was statistically insignificant.

The results from Table 4.3 with respect to profitability depicts that the mean of banks with high profitability was statistically different from that of banks with low profitability. The result from the t-test of the mean of the two groups was statistically significant at the 1% level of significance. This shows that a statistical significant existed difference between the means of high and low profitability Nigerian banks. In contrast, the mean of insurance in terms of profitability between high and low showed no statistically significant difference between the two groups of insurance companies in the sample. This shows that the result from the t-test with respect to the means of the two groups was statistically insignificant.

The analysis with respect to audit quality proxy by Big4 and non-Big4 in Table 4.3 shows the mean of Big4 in banks to be statistically different from that of non-Big4. The t-test result indicates that the mean of the two groups was statistically significant at the 5% level. This shows that a statistical difference existed between the mean of Big4 and non-Big4 with respect to the sampled Nigerian banks. However, in comparison, the mean of insurance companies in terms of audit quality between Big4 and non-Big4 indicated no statistically significant difference between the two groups of insurance companies in the sample. The results from the t-test with respect to the mean of the two groups were statistically insignificant.

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4.2.2 Independent Variables

Having extensively described data on the dependent variable, attention is directed towards describing the dataset for the independent variables. The descriptive statistics of the independent variables of the study with respect to Nigerian financial institutions comprised 20 banks and 30 insurance companies are presented in Table 4.4.

Table 4.4
Descriptive Statistics of Independent variables

Variable	Mean	Std. Dev.	Minimum	Maximum	Skewness	Kurtosis
ACS	5.80	0.56	4.00	8.00	-1.18	4.58
ACE	0.20	0.06	0.00	0.33	0.97	2.14
ACI	0.87	0.14	0.50	1.00	-0.64	-0.38
ACM	4.20	0.80	1.00	8.00	0.91	4.73
RMCS	5.03	2.11	3.00	14.00	1.12	4.23
RMCE	0.23	0.07	0.00	0.50	0.12	1.78
RMCI	0.67	0.11	0.43	0.80	-0.76	-0.58
RMCM	4.23	1.12	3.00	15.00	1.93	19.87
BLOC	38.64	27.15	0.00	100.00	0.33	-0.53
FSIZE	17.67	2.30	13.95	22.21	0.71	-1.10
PROFIT	0.03	0.41	-3.94	0.92	-0.81	4.23
LEV	0.64	0.36	0.07	3.15	1.73	16.75
AUDQ	0.55	0.50	0.00	1.00	-0.26	-1.96
INDUS	0.40	0.49	0.00	1.00	0.40	1.17

N=150

Table 4.4 reports the descriptive statistics of independent variables of the study. From the table, audit committee size (ACS) has a mean value of 5.8. This means that the size of audit committees in Nigerian financial institutions was approximately 6 directors with a standard deviation of 0.56. Hence, the average size is within the minimum requirements in the Nigerian corporate governance code (SEC, 2011). Meanwhile, the minimum of ACS in the study sample was 4 while the maximum number of the ACS was 8. This result shows that none of the financial institutions has fewer than 4 directors on the AC and none had more than 6 directors. It can further be deduced that some of the financial institutions in Nigeria did not comply with the requirements of 6 directors

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in ACS per the recommendations of the Securities and Exchange Commission Code of Corporate Governance (SEC, 2011). In terms of the skewness of ACS variable, a value of 1.18 was obtained, which is within the limit of -1 to +1. In contrast, the kurtosis of ACS for the sample financial institution over the period of research was higher than the threshold of -3 to +3.

The average proportion of audit committee expertise (ACE) in Nigerian financial institutions was 0.20 (1/5). This means that on average, one director in five serving on the audit committee has an accounting/financial background with a standard deviation of 0.06. Moreover, the maximum proportion of ACE was 0.30 directors with some financial institutions in the sample having no accounting/finance expertise on the audit committee. This is because the minimum shows zero directors. Moreover, the skewness and kurtosis of the ACE of 0.97 and 2.14 fell within the normal distribution range of -1.96 to +1.96. This result is consistent with the provisional requirements of having at least one accounting/financial expertise serving on an audit committee of Nigerian financial institutions (SEC, 2011). From this analysis, the fact that the majority of the sampled financial institutions have one member on the audit committee conforms to the requirements of the SEC rule that at least one accounting literate member should serve on the audit committee.

Although the proportion of expertise in audit committee is low, nonetheless, the fact that the majority of the sampled entities had one director with accounting or financial literacy indicates the likelihood of financial reporting quality. That is because audit committee members have dual role of ensuring higher IFRS 7 financial reporting quality and providing advice and access to financial and other resources on behalf of

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the organisation.

The means value of audit committee independence is a proportion that can be expressed as percentage. Thus, based on the mean value, approximately 87% of audit committee members were independent directors. The maximum proportion is that all the audit committee members are independent/non-executive directors on an audit committee while the minimum is at least 50% or half of the directors are independent members. The mean shows that independent directors are within the requirements of the Nigerian Securities and Exchange Commission Code of Corporate Governance. The standard deviation of the ACI is 0.14. These figures indicate closeness of the variable to the mean hence its adequacy for explaining the distribution. The skewness of the audit committee independence (ACI) and its kurtosis fell within the statistical distribution of -1 to +1 and -3 to +3 respectively. The result of the ACI reveals that all the sampled financial institutions in this study complied with the Nigerian SEC Code of Corporate Governance requirements, whose provision calls for at least three independent directors to serve on audit committees of Nigerian listed companies (SEC, 2011).

The findings in this study are consistent with proportion of independent members serving on audit committees in Australia with an average of three directors in public non-financial company (Subramanian et al., 2009). Consequently, Nigeria's banking crisis of 2004, which resulted in the reduction of listed banks from 68 to 21 and insurance companies from 146 to 57 may be due to other factors other than the effects of non-independent directors serving on the audit committee (Abiola & Ojo, 2012; Sunusi, 2012).

The mean of audit committee meeting frequency (ACM) in Table 4.4 was approximately 4 times per annum with standard deviation of 0.80. Audit committee meeting had a maximum of eight meetings and a minimum of one meeting per annum. The result shows that on average most audit committee boards of financial institutions in Nigeria meet at least within the mandatory minimum frequency of meeting four times per year. However, from the figures in Table 4.4, some financial institutions clearly did not meet up with the statutory requirements of four meetings per annum. The result thus calls for more regulatory intervention. Moreover, the skewness of the audit committee meeting was within the threshold while the value for kurtosis was slightly higher than the range of -3 to +3, which has been taken care of by the robust result of the random effect (Huber, 1981; Rousseeuw & Leroy, 1987). This result shows that some financial institutions conducted fewer meetings than the regulatory requirement call for. The result shows the need for more meetings that is a criterion for indicating the effectiveness of committees such as the audit committee in disclosure transparency towards the success of the company (Bryan et al., 2004; Kent & Stewart, 2008).

Furthermore, Table 4.4 reveals that risk management committee size (RMCS) had a mean value of 5.03. This means that RMCS was approximately 5 with a standard deviation of 2.11. The risk management committee size had a mean of 5, a minimum of 3 and a maximum of 14 directors. The SEC Code of Corporate Governance in Nigeria recommends the establishment of risk management committee as an important sub-committee of the board of directors that is responsible for overseeing the risk management framework, risk appetite and risk limits of listed companies in Nigeria (SEC, 2011). However, the Code of Corporate Governance is not specific on the size of the risk management committee. According to the SEC Code of Corporate

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Governance, risk management committee members in Nigeria should comprise executive, non-executive and senior management who deal with risk-related operations (SEC, 2011). This could explain the large size of RMC members in for example, Access bank and Oasis insurance company with an average of 12 and 14 members respectively. The skewness of RMCS was within the statutory threshold while the kurtosis is slightly higher than the upper limit of +3.

The mean proportion of risk management committee expertise (RMCE) was 0.23 with a maximum of 0.5 and a minimum of 0.00. This result shows that on average, one director of every 5 directors (23%) in the sampled Nigerian financial institutions has accounting/finance knowledge in risk management committees. The minimum RMCE was zero, which indicates that some of the sampled institutions had no accounting/finance expertise However, the maximum RMCE was 0.50. This value expressed in percentage means that 50% of RMCE directors had knowledge of accounting or financial management. The SEC Code of Corporate Governance in Nigeria encourages accounting/financial knowledge on risk management committees in addition to other professionals serving on the risk management committee of listed firms to assist the committee and the entire board in the interpretation of risk-related accounting issues brought to the committee by management, internal auditors or external consultants. This regulatory requirement is similarly enforced on Australian listed companies as reported in Allies (2005).

The average proportion of risk management committee independence (RMCI) as illustrated in Table 4.4 of the sampled financial institutions in Nigeria shows that the mean proportion of independent directors in risk management committee was 0.67.

This means that, on average, independent members comprised approximately 67% of risk management committee members in Nigerian listed financial institutions. The table further reveals that the standard deviation of RMCI was 0.11 with a minimum 0.43 and the maximum proportion of the independent members was 0.8. The figures for the minimum and maximum shows that on average, approximately 43% of members of risk management committee of the sampled financial institutions in Nigeria are independent. Furthermore, the maximum value indicates that approximately 80% of risk management committee members were independent directors. Dobler (2008) found that independent/non-executive directors as shareholder representatives were required in risk management committees of banks and insurance companies to monitor and control the floor of credits. The SEC Code of Corporate Governance in Nigeria does not specify the minimum proportion of independent and non-executive directors on the risk management committee.

However, based on the mean, minimum and maximum presented in Table 4.4, the result of the analysis reveals that independent directors were fully represented in risk management committee indicating the likelihood of an effective oversight function of IFRS 7 financial instruments risk-related disclosure. Furthermore, the skewness and kurtosis could be said to be normal because they fall within the range of -1 to +1 and -3 to +3 respectively. The result suggests that the proportion of risk management committee independent members in the sampled financial institutions in Nigeria may be considered appropriate from the perspective of a developing country when compared with findings in prior studies such as Australian non-financial firms with a mean value of 0.75 (Subramanian et al., 2009).

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In this study, the mean value of risk management committee meeting frequency (RMCM) in Nigerian financial institutions as shown in Table 4.4 was 4.23. The result shows that approximately 4 meetings were conducted per annum by listed financial institutions in the sample of this study. The maximum risk management committee meeting was 14 times per annum by Fidelity bank Plc while the minimum meetings convened were 3 times per year. On the spread of observations across sampled firms, the table reveals that standard deviation of risk management committee meeting was 1.22 and the skewness and kurtosis were also found not to be normally distributed as they both fall outside the range.

The Nigerian Code of Corporate Governance does not specify the number of risk management committee meeting attendance per annum. However, risk management committee members are expected to hold meetings to discuss and approve loan proposals, classify risk assets, internally observe audit risks and audit queries brought by professional auditors on risk assessment and hedging strategies (Deumes, 2008). The result on sampled Nigerian financial institutions compares favourably with the recommendation of the Australian Stock Exchange of at least three meetings per annum of all Australian listed companies (ASX, 2007).

Table 4.4 also presents descriptive statistics of blockholder ownership as a proposed moderator in Nigerian financial institutions. From the Table, BLOC has a mean value of 38.64, which means that approximately blockholder ownership in Nigerian financial institutions was 39%. Meanwhile, the minimum and maximum of BLOC in Nigerian financial institutions were zero and 100% respectively and standard deviation was 27%. This means that some financial institutions in Nigeria have no blockholders in their

shareholding structure while others are owned 100% by block investors. The skewness and kurtosis of blockholder ownership of 0.33 and -0.53 fell within the normal distribution range of -1 to +1 and -3 to +3 respectively.

In addition to describing data on variables of key interest, Table 4.4 further gives descriptive highlights of the control variables used in the study. The control variables were: firm size (FSIZE), leverage (LEV), profitability (PROFIT), audit quality (AUDQ) and industry (INDUST).

In this study, firm size (FSIZE) was measured by the total monetary values of asset ownership of a firm. As revealed by the table, the average total monetary value of assets for sample financial institutions was ₦17.67million. The standard deviation of FSIZE, as measured by total monetary values of assets, was ₦2.30 million. Moreover, Table 4.4 indicates the maximum total fixed assets ownership of the sampled firms was N13.95 million. The minimum total fixed assets ownership of the sampled firms over the period of study was in deficit of ₦22.21 million. As for the skewness and kurtosis, respective values of 0.17 and -1.10 were obtained, with both falling within the normal distribution range.

Similarly, Table 4.4 provides data for the profitability variable. Profitability was measured as the ratio of net profit to owners' equity. As the table shows, the mean value of profitability was 0.03, with a maximum value of 0.92 and a minimum of -3.98. As for the measure of dispersion in the profitability of listed financial institutions, a standard deviation of 0.41 was observed, which shows a relatively high dispersion in the profitability ratio of the listed firms. This result indicated that listed financial

institutions fell into profit making and non-profit making entities with wide variations in monetary terms ranging from a profit of 0.92 to a loss of 3.98 million. Thus, while skewness fell into a normal distribution range, the kurtosis of 4.23 somewhat deviated from the normal distribution range of -3 to +3.

With respect to leverage, which was measured by total debts to total assets ratio of the sampled financial institutions however, Table 4.4 shows a mean of 0.64 and standard deviation of 0.36. These figures indicate ratio of external financing sources from total financing of the sampled banks and insurance companies. The minimum leverage was 0.07 and maximum is 3.15. The skewness of 1.73 fell within the range of -1 to +1 while the kurtosis of 16.75 agave no cause for alarm because, according to Kline (2011), kurtosis becomes a serious issue only if it is found above the standard range of 20. However, this indicates heavy reliance on funds from external sources, which may be the result of blockholder ownership involvement using their connections and influence to source funds from prospective investors.

The CBN has observed that a high leverage ratio may not be a good sign for listed financial institutions in Nigeria. According to Sunusi (2011), blockholders have cleverly withdrawn their holdings and now rely on external sources of financing in some listed financial institutions in Nigeria to fund the operations of these financial institutions. The implication is that these financial institutions may not be better for it; hence; such funding may lead to inadequate compliance with disclosure requirements of IFRS 7 financial instruments disclosure.

Furthermore, Table 4.4 shows the descriptive statistics of the audit quality variable. Audit quality was measured in this study by Big4 and non-Big4 with Big4 taking the value of "1" and non-Big4 taking the value of "0". The table shows that about 55% of the companies are audited by the big 4 audit firms. The standard deviation of this variable was 0.50, which shows a relatively high dispersion. This result indicate that some listed financial institutions fell into the high quality financial reporting bracket with more firms in the sample utilizing Big4 in contrast to non-Big4 audit firms. The skewness and kurtosis also fell within the normal distribution range of -3 to +3.

Moreover, Table 4.4 shows descriptive statistics for industry variable measured as "1" for banks in the sample and "0" for insurance companies. The table shows that 40% of the samples come from banks while another 60% are from the insurance companies. The standard deviation is high with a dispersion of 0.49. The skewness and kurtosis of 0.40 and 1.17 falls within the normal distribution range of -3 to +3.

4.3   Correlation Analysis

Also known as zero-order, correlation indicates a relationship between two variables. The bivariate Pearson product moment correlation coefficient (*r*) only takes values between -1 and +1. The negative sign indicates that an increase in one variable leads to a decrease in the other. Conversely, the positive sign signifies a positive association of simultaneous increase or decrease in a given pair of variables (Pallant, 2005). According to Sekaran (2006) and Pallant (2011) correlation analysis is used to describe direction, significance and strength of association between variables used in a study.

In this study, Pearson correlation is used to ascertain the degree of association between

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variables. Cohen (1992) and Pallant (2005) suggested that, when the correlation between two variables is zero (0), there is no association, while a correlation or either +1 or -1 indicates the existence of a perfect association. Furthermore, Pallant (2011) posits that a correlation above ±0.50 was strong, between ±0.30 and ±0.49 indicates a moderate relationship while ±0.10 and ±0.29 is indicative of a weak relationship.

Table 4.5 below presents the correlation matrix of all variables included in the study. The result was based on the 50 sampled listed financial institutions in Nigeria comprising 20 banks and 30 insurance companies over a period of 3 years from 2012–2014. The results of correlation matrix are classified into three categories with the first having a correlation of higher than 0.5 as evidence of strong correlation, 0.3 to 0.499 as moderately correlated and less than 0.3 as weakly correlated.

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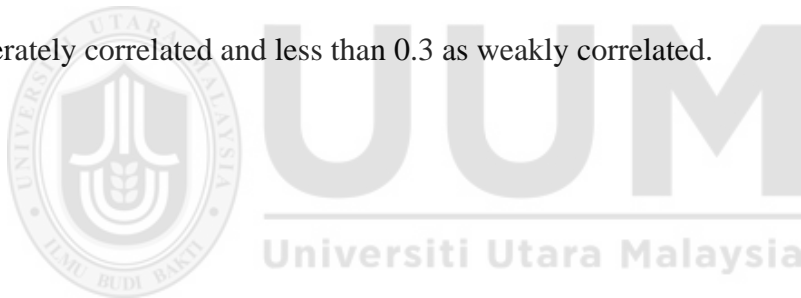
Table 4.5
Correlation matrix

	IFRS	ACS	ACE	ACI	ACM	RMCS	RMCE	RMCI	RMCM	BLOC	FSIZE	AUDITQ	PROFIT	LEV
IFRS	1.000													
ACS	0.285***	1.000												
ACE	0.441***	0.184**	1.000											
ACI	0.644***	0.488***	0.332***	1.000										
ACM	0.222***	0.151*	0.156*	0.21**	1.000									
RMCS	0.343***	0.227***	0.130	0.368***	0.159*	1.000								
RMCE	0.175**	0.154*	0.385***	0.229***	-0.014	0.511***	1.000							
RMCI	0.385***	0.279***	0.116	0.375***	0.099	0.851***	0.44***	1.000						
RMCM	0.227***	0.128	0.342***	0.149*	0.180**	0.175**	0.534***	0.238***	1.000					
BLOC	-0.127	0.090	0.010	0.050	0.080	-0.070**	-0.124	-0.161	0.173**	1.000				
FSIZE	0.895***	0.251***	0.453***	0.717***	0.175**	0.328***	0.177**	0.337***	0.201**	0.010	1.000			
AUDITQ	0.462***	0.161*	0.21**	0.377***	0.082	0.084	0.064	0.128	0.130	0.20**	0.542***	1.000		
PROFIT	0.098	-0.002	0.069	-0.002	-0.033	0.102	0.063	0.075	0.093	0.043	0.087	0.035	1.000	
LEV	0.368***	-0.017	0.137	0.323***	0.045	0.108	0.102	0.148*	-0.014	0.070	0.415***	0.192**	0.030	1.000
INDUST	0.679***	0.123	0.323***	0.553***	0.080	0.294***	0.186**	0.235***	0.113	0.034	0.834***	0.542***	0.021	0.47***

Note: ***, **, * indicate that the parameter estimate was statistically significant at 1%, 5% and 10%, respectively.

Based on Table 4.5 above, the correlation coefficient between audit committee independence and IFRS 7 compliance was 0.64. This means that ACI and IFRS 7 compliance had a strong and statistically significant correlation at the 1% level of significance. This is followed by the correlation between RMCI and RMCS. According to the results in Table 4.5, the correlation coefficient between these variables was 0.85, and the relationship was statistically significant at the 1% level of significance. This means that a high correlation exists between these two variables. However, this does not expose the model to the problem of multicollinearity because, according to scholars, multicollinearity is encountered only if the correlation coefficient is more than 90% (Hair et al., 2014; Tabachnik & Fidell, 2007).

As for the degree of association between firm size and IFRS 7 compliance, a strong correlation of 0.90 was present, which was statistically significant at the 1% level of significance. The correlation coefficient between industry and IFRS 7 compliance was strong and statistically significant with a coefficient of 0.68 at the 1% level of significance. Moreover, a strong correlation of 0.72 was observed between firm size and ACI at the 5% level of significance. Furthermore, risk management committee meeting and risk management committee expertise had a strong correlation of 0.53, which was also found to be statistically significant at the 1% level of significance. Audit quality and firm size also had a strong correlation of 0.54, which was greater than 0.5 and statistically significant at the 1% level of significance.

However, some of the variables were found to be moderately correlated as their values ranged between 0.30 and 0.499. For example, audit committee expertise and IFRS 7 compliance was 0.44; risk management committee size and IFRS 7 compliance was

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0.34; risk management committee independence and IFRS 7 compliance was 0.39; leverage and IFRS 7 compliance is 0.37 and audit quality and IFRS 7 compliance was 0.46, all of them falling within the moderately and significantly correlated category at the 1% level of significance.

Moreover, the independent variables of this study also moderately correlated at the 1% level of significance. These variables included risk management committee meeting and audit committee expertise with a coefficient of 0.34 at the 1% level of significance. Risk management committee size and audit committee independence were also moderately correlated at the 1% level of significance with a coefficient of 0.37. The correlation between risk management committee independence and audit committee independence was found to be insignificant with a coefficient of 0.37. Risk management committee independence and risk management committee expertise had a statistically significant correlation with coefficient of 0.44 at the 1% level of significance. Similarly, s moderate correlation existed between risk management committee expertise and audit committee expertise, which was also found to be positive at the 5% level of significance.

In the same vein, weak correlation coefficient relationships were observed between the variables of the study as shown in Table 4.5. The weakly correlated variables with a significant association at the 1% level of significance included risk management committee size and audit committee size and risk management committee independence and audit committee size. These variables had coefficients of 0.23 and 0.28 respectively. The correlation between audit committee meeting and audit committee independence was 0.21 and was positive and significant at the 5% level of

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significance. Risk management committee expertise and audit committee independence were weakly correlated with a positive value of 0.23 at the 5% level of significance.

The same level of significance was found in the correlation between risk management committee meeting and audit committee meeting and risk management committee meeting and risk management committee size both having a weak coefficient of 0.18 each. Table 4.5 also reveals that audit committee meeting and audit committee size had a weak positive correlation at the 10% level of significance. Furthermore, a positive and weak correlation coefficient of 0.15 was found between risk management committee expertise and audit committee size at the 10% level of significance. audit committee meeting and audit committee expertise's correlation at the 10% level of significant was weak with a coefficient of 0.16. The coefficients of risk management committee meeting and audit committee independence and risk management committee size and audit committee meeting were 0.15 and 0.16 respectively. However, these correlations were weak at the 10% level of significance.

Table 4.5 also shows the correlations between block holder ownership and all the variables of the study. For example, the correlation between block holder ownership and IFRS 7 (0.12) was not significant. Moreover, a negative relationship was found between block holder ownership and audit committee size with a weak correlation coefficient of 0.09. The coefficients between block holder ownership and audit committee expertise, block holder ownership and audit committee independence, and block holder ownership and audit committee meeting were not significant. The correlation coefficient between block holder ownership and risk management committee size was 0.07 at the 5% level of significance. Although the correlation

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coefficient of block holder ownership and risk management committee expertise was not significant, that of block holder ownership and risk management committee meeting was negative (0.17) and significant at the 5% level of significance. The correlation of 0.16 between block holder ownership and risk management committee independence was not significant.

The control variables were also correlated with the independent variables and among themselves. For instance, a moderately positive and significant correlation was found between leverage and audit committee independence at the 1% level of significance. Moreover, audit quality and audit committee independence were moderately correlated with a coefficient of 0.38 at the 1% level of significance. Similarly, firm size and risk management committee size and firm size and audit committee expertise were found to have positive correlations at the 1% level of significance with coefficients of 0.33 and 0.45 respectively. The correlation between leverage and firm size was moderate at the 1% level of significance. Firm size and audit committee size and firm size and audit committee meeting were weak and positively correlated at the 1% and 5% levels of significance respectively. The correlation between firm size and risk management committee expertise and between firm size and risk management committee meeting was weak at the 5% level of significance with coefficients of 0.18 and 0.20 respectively.

The correlation between industry and audit committee expertise was found to be positive and significant at the 1% level with a coefficient of 0.32. A strong and positive relationship at the 1% level of significance was also found between industry and audit committee independence with a coefficient of 0.55. Firm size and industry reported a strong relationship of 0.83, which was positive at the 1% level of significance. The

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relationship between audit quality and industry was also strong with a coefficient of correlation of 0.54 at the % level of significance. Leverage and industry had a positive and significant relationship at the 1% level of significance with a coefficient of 0.47. However, Table 4.5 showed a moderate correlation coefficient between industry and risk management committee size with a coefficient of 0.29 at the 1% level of significance. A similar result was also found between industry and risk management committee independence with a coefficient of 0.24 at the 1% significant level. However, the coefficient of 0.19 between industry and risk management committee expertise was positive at the 5% level of significance.

The relationship between block holder ownership and audit quality was significant at the 5% level with a coefficient of 0.20. Block holder ownership and firm size had an insignificant correlation of 0.01, and the correlation coefficient between block holder ownership and profit was also insignificant, with a coefficient of 0.04. The correlation between block holder ownership and industry was not significant and that between block holder ownership and leverage of 0.07 also was not significantly correlated. The correlation between audit quality and leverage was weak and positive at 5% and that between audit quality and audit committee size was significant at the 10% level of significance with coefficient of 0.16. The fact that other variables did not have significant correlations in this current was consistent with Al-Akra et al. (2010) who found an insignificant correlation between audit committee independence and ownership structure in non-financial companies of Jordan.

4.4   Multivariate Regression Diagnostic Tests

This study employs multiple regression to analyse the panel dataset and test the

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formulated hypothesis. Using panel data offers a number of advantages over cross-section and time-series (Baltagi, 2008). However, in order to guard against spurious results and acceptability of the results, a number of pre- and post-estimation tools were employed. Such tests are deemed necessary as they certify data compatibility. According to Pallant (2005), various steps exist for assessing the assumptions of the classic linear regression model, compatibility of data and model specification for multiple regression analysis. This study conducts tests for normality (Mardia, 1980), model specification (Pregibon, 1980), homoscedasticity (Cameron & Trivedi, 1990; Breusch & Pagan, 1980) and the VIF test of multicollinearity (Hair et al., 2014). The statistical results obtained are shown in Table 4.6.

Table 4.6
Diagnostics Tests

Test	p-value
Test for Normality (Mardia)	0.304
Model specification (Hat test)	0.002
Model specification (Hat-square)	0.851
Heteroskedasticity (Cameron and Trivedi)	0.461
Heteroskedasticity (Breusch & Pagan)	0.540
VIF Test (Hair et al., 2014)	2.870
Chow Test	0.020

4.4.1 Test for Normality

A normality test was conducted on residuals of the model employed in this study. The results using Mardia normality test shown in Table 4.6 give a statistical probability value of 0.304. The results show evidence that the model has normal distribution of residuals (Mardia, 1980). This study also used the quintile normal plot, also called standardized normal probability plot, to check extremes of data. Based on the graphs below the data appear normal at the lower tail and upper tail.

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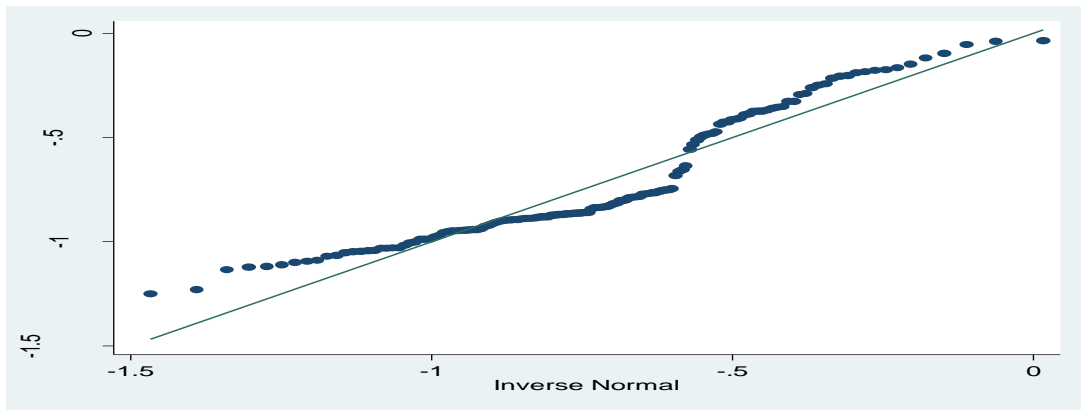
Figure 4.1. Quintile Normality (Q-NORM) Graph.

4.4.2 Test of Heteroskedasticity

This study conducted both Cameron and Trivedi's orthogonal decomposition of information matrix test and the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity. The results show insignificant *p*-values of 0.461 and 0.540 respectively. These results confirm that the model is homoscedastic as shown in Table 4.6. Similarly, the result using residual value fitted plot (RVF) shows that the pattern based on plots presented does not violate the assumption that IFRS 7 is linear against the independent variables. Hence, heteroskedasticity is not an issue of concern in this study.
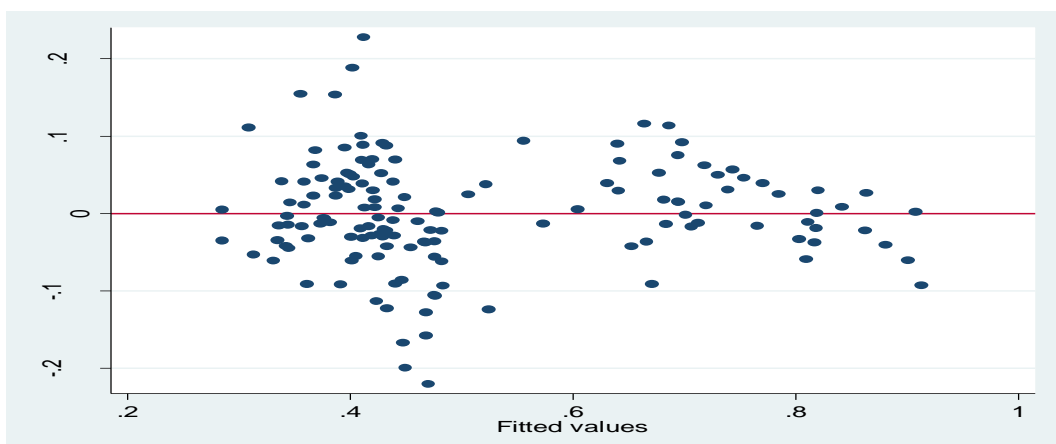
Figure 4.2. Residual vs. Fitted Value Plot.

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4.4.3 Multicollinarity Detection

Multicollinarity is a statistical term that describes a situation of high correlation amongst two or more independent variables in a multiple regressions model (Kumar, 1975). Hence, a primary concern in regression analysis is that an increase in multicollinearity results in unstable regression coefficient or parameter estimates and eventual inflation of standard error. Hamilton (2004) suggests that high multicollinearity can result in unstable and unreliable regression coefficient estimates. Thus, small changes in sample or model may lead to drastic change in regression coefficient.

The first step in multicollinearity detection is to examine the correlation matrix for a given set of variables. Hair et al. (2014) and Tabachnik and Fidell (2007) posit that the correlation matrix between independent variables should not be more than 0.90. This study's highest correlation was 0.85 observed between RMCI and RMCS as shown in Table 4.5. Therefore, the issue of multicollinearity amongst the variables employed in this study is not of much concern. Similarly, the VIF of this model had an average of 2.59 which is within the range that Hair et al. (2014) suggested and shown in Table 4.7.

Table 4.7
Tests of Multicollinarity

Variable	VIF	1/ VIF
ACS	1.36	0.73
ACE	1.66	0.60
ACI	2.18	0.46
ACM	1.16	0.86
RMCS	2.37	0.42
RMCE	2.08	0.48
RMCI	1.47	0.68
RMCM	1.44	0.70
BLOC	1.18	0.84
FSIZE	9.89	0.10
LEV	1.38	0.72

Table 4.7 (continued)

Variable	VIF	1/ VIF
PROFIT	1.08	0.93
INDUS	4.10	0.24
AUDQ	4.04	0.20

Note. The mean VIF = 2.59; whereas VIF = Variance Inflation Factor.

Based on the various statistical results in Table 4.6, the relationship between the dependent variable (IFRS 7 compliance) and all the other variables of the study was correctly specified.

4.4.4   Detection of Outliers

Hair, Black, Babin, and Anderson (2010) argue that outliers are errors or noise in research observations with unique attributes that differs so much from their peers it seems as if they are fashioned from different processes or procedures. Various distinct methods of detecting outliers exist. These include univariate, bivariate, multivariate techniques, the Mahalanobis distance technique, standardized residual technique and many others (Pallant, 2005). According to Tabachnik and Fidell (2007), a standardized residual figure of more than +3.3 or less than -3.3 indicates the presence of outliers. However, the presences of outliers are not unexpected in the financial sector that has more stringent requirements than non-financial firms (Andres & Vallelado, 2008). This study used the added variance (AV) plot to check for outliers (Rousseeuw & Leroy, 2003). The regression of data points of each variable against all others seems to be in range hence no outliers are observed as in Figure 4.3.
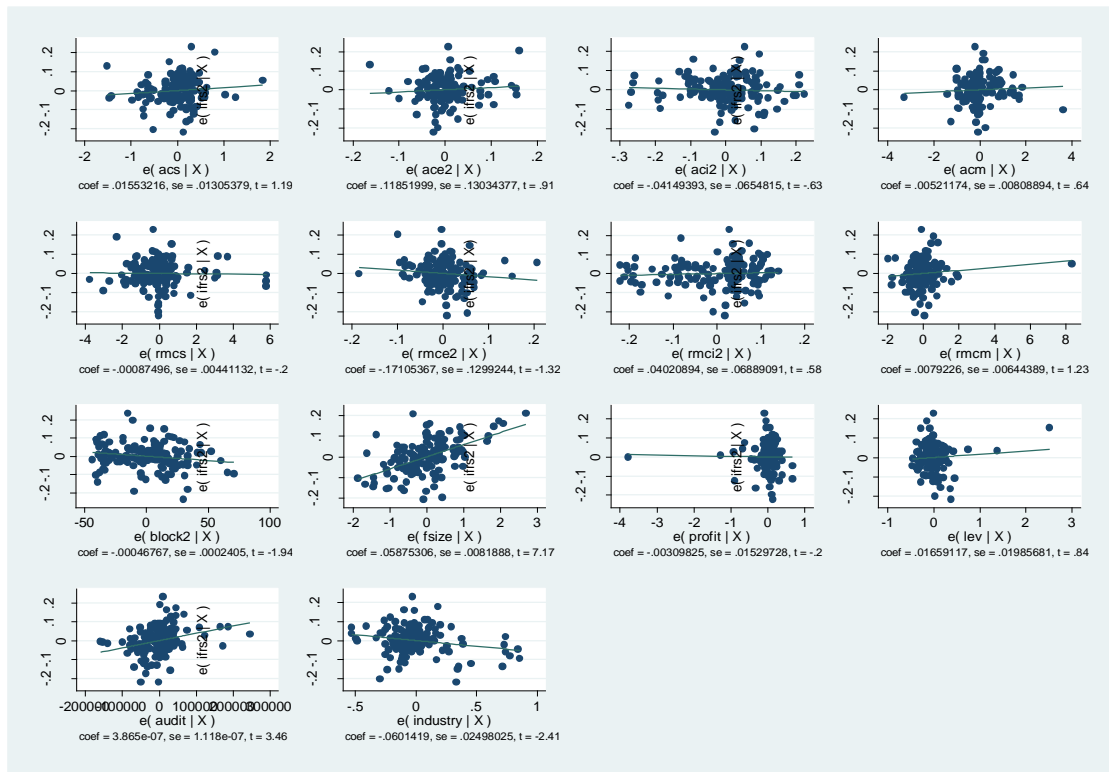
Figure 4.3. Added value (AV) Plot.

4.4.5   Linearity Assumptions

In regression analysis, linearity between dependent variable and regressors is checked by comparing the standard deviation of dependent variable with the standard deviation of residuals. Non-linearity is not considered a problem if the standard deviation of dependent variable is more than the standard deviation of residuals (Hair et al., 2010). To detect non- linearity, this study employed the YHAT plot of observed versus predicted values where a 45^0 pattern in data is expected. The graphs in Figure 4.4 shows that the points are systematically distributed along a diagonal line with almost a constant variance. Hence, the linearity assumption has been satisfied, and the model seems to be fit for predicting IFRS 7 compliance.

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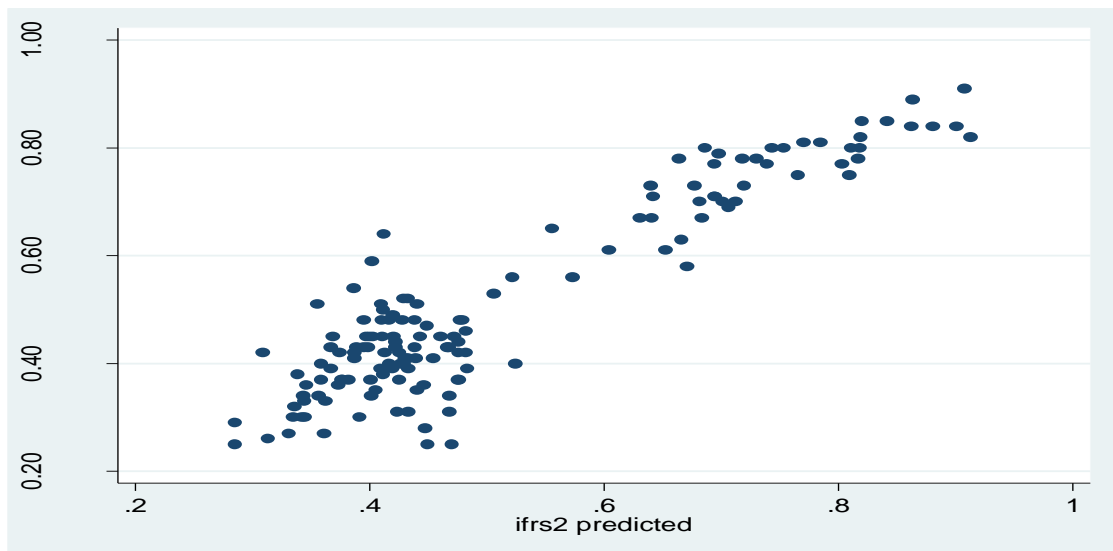
Figure 4.4. Observed vs. Predicted Plot.

4.4.6 Multiple Regression Selection

This study used STATA 13 econometric software in analysing the data. In their submissions, Sekaran and Bougie (2011) observed that STATA is an all-purpose software package used in various statistical and econometric models and graphic arts employing features for programming and matric manipulations.

Several regression models exist in panel data analysis using STATA software. However, the present study focuses on three static panel data estimation models. These are Pooled Ordinary Least Squares (OLS), Fixed Effects (FE) and Random Effects (RE) models. According to Gilman and Hill (2007) each of these models has their own underlying characteristics that must be satisfied to obtain reliable and unbiased estimates.

4.4.6.1 Pooled Ordinary Least Squares Model

The pooled OLS model employs a single regression estimate for all the companies in the sample over the period of analysis. A typical OLS model ignores panel data

characteristics (Cheng, 2003). The assumption of pooled OLS is that the explanatory variables should capture all the characteristics of each financial institution in the sample while dropping all unobserved specific effects and using pooled OLS to fit the model (Baltagi, 2008). This means that all variables in the sample have constant intercepts and slope of coefficient across time.

However, ignoring individual characteristics may lead to heterogeneity bias. This is because the predictor and outcome variables may be different across companies over time. Moreover, the assumption of panel data is that individual companies or countries are heterogeneous (different) with respect to one another. Hence, differences have to be taken care of to avoid spurious results (Cheng, 2003).

4.4.6.2 Fixed Effects (FE) Model

This model captures specific effects in panel data set that is used to analyse the impact of variables that changes over time (Frees, 2004). Consequently, Torre-Reyna (2011) observed that the fixed effect model has some basic assumptions of specificity that may or may not influence the predictor variables. This includes need for the control of a foreign body that may lead the outcome variable to be biased and the possibility that time invariant characteristics might be correlated with the predictor variable.

Torres-Reyna (2011) argues that, in the fixed effect model, each entity is considered distinct without any correlation between constants and the error term. This author observed that, should the error terms correlate, the fixed effect model is not a suitable predictor because it may give spurious conclusions. Alternatively, a test for the random effect model is to be conducted to decide the most appropriate model to determine

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relationships.

4.4.6.3 Random Effect (RE) Model

The random effect assumes that variations across entities are randomly uncorrelated with each variable in the model. The random effect model is based on the fact that each intercept moves towards a common intercept (Tauringana & Afrifa, 2013). The random effect model is most appropriate if the panel's data comprises (n) number of the population (sample) drawn from a large sample size or population in such a way that individual precise constant terms are randomly distributed across companies.

In contrast, the appropriateness of the fixed effect model is more when a researcher concentrates on a specific set of n units that are not randomly selected from a large sample. Furthermore, Tauringana and Afrifa (2013) argued that, given the likelihood that differences across entities are believed to have some influence over the predictor variable in panel data set, the random effect model is more appropriate.

4.5   Model Selection Criteria

According to Baltagi (2008) the first test in panel data analysis is to determine the appropriateness between the random effect (RE-GLS) model and the Pooled OLS model. This involves determining whether data for the study are heterogeneous (λ) using the Breusch and Pagan LM Test. The Breusch and Pagan LM Test result in this study shows a p-value of 0.000. Based on the analysis of direct relationship of this study in Table 4.6, the results show that the random effect model is a more efficient estimator than the Pooled OLS model (Gelman & Hill, 2007).

The second step is to run both random effect (RE) and fixed effect (FE) regression models and compare the two using the Hausman (1978) specification test (Claire et al., 2010). The results of the Hausman test using the direct relationship model as shown in Table 4.8 indicates an insignificant *p*-value of 0.4168. This leads to the conclusion that the random effect model is more appropriate (Hausman, 1978). Based on the null hypothesis, no correlation exists between the error term (λ) and the constant *it* (RE) whereas based on the alternative hypothesis a correlation exists between the error term (λ) and the constant *it* (FE) (Cheng, 2003). Therefore, the Hausman specification test fails to accept the null hypothesis in favour of the alternate that the random effect model is more appropriate (Greene, 2008).

4.5.1 Random Effect Model Robust Estimation

As earlier stated, the random effect (RE) model is the most appropriate for this study. Therefore, to enable more accurate and reliable results that are free from heteroscedasticity, the random effect model is further subjected to robust estimation to generate a robust random effect model as obtained in Table 4.8 (Cameron & Trivedi, 2005). The primary model of interest in this study is therefore the RE model, and will be the model discussed throughout for the purpose of drawing meaningful inferences.

4.6 Regression Results

Table 4.8 of Model 1 shows the results of the regressions for direct relationships between Audit Committee characteristics (size, expertise, independence, and meeting frequency), Risk Management Committee characteristics (size, expertise, independence and meeting frequency), blockholder ownership, control variables and IFRS 7 compliance using robust random effect models

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Table 4.8
Model One – Direct Regression Analysis

Variable	Expected Sign	Coefficient	Std. Error	t-value	p-value
ACS	+	0.0349	0.0102	3.44	0.0010***
ACE	+	0.1128	0.0620	1.82	0.0680*
ACI	+	0.0353	0.0682	0.52	0.6050
ACM	+	0.1020	0.0291	3.50	0.0000***
RMCS	+	0.0022	0.0054	0.40	0.6880
RMCE	+	-0.0351	0.1173	-0.30	0.7650
RMCI	+	0.1468	0.0797	1.84	0.0660*
RMCM	+	0.0021	0.0188	0.11	0.9120
BLOC	-	-0.0004	0.0003	-1.45	0.1480
FSIZE	+	0.0490	0.0093	5.25	0.0000***
PROFIT	+	-0.0229	0.0186	-1.24	0.2170
LEV	+	-0.0009	0.0005	-1.66	0.0980*
AUDQ	+	0.0000	0.0000	3.43	0.0010***
INDUS	+	-0.0268	0.0357	-0.75	0.4520
CONST.		-0.8244	0.1634	-5.05	0.0000***
R^2		0.84			
F-Wald		525.02			
Prob (F)		0.000			
Hausman χ^2		12.36			
Hausman p-value		0.42			
LM χ^2 test		30.03			
LM p-value		0.00			

Note. ***, **, and * indicate that the parameter estimates are statistically significant at the 1%, 5% and 10% levels respectively.

The R^2 of the robust RE model under the direct relationship in panel one of Table 4.8 of model 1 explains about 84% of the variation in IFRS 7 compliance of the estimated variables. This study's R^2 is higher than the 69% Uyar et al. (2016) reported from Turkey and far higher than the 39% obtained in Nigerian banks post-IFRS adoption that Hassan (2015) documented. Moreover, the F-Wald chi-square value of this model shows the statistical adequacy of the model at the 99% level of confidence. The F-Wald chi-square value of the model indicates that the model is statistically adequate at the 1% level of significance.

Similarly, the R^2 of the robust RE model under moderating relationship between blockholder ownership and all the corporate governance characteristics and IFRS 7 compliance as presented in Table 4.9 shows that model 2 explains about 83% of the variation in IFRS 7 compliance of the estimated variables. Furthermore, the F-Wald value of 856.78 of the model shows the statistical adequacy of the model at 99% level of confidence and its statistical adequacy at 1% level of significance.

Table 4.9
Model Two- Moderating Relationship with Blockholder Ownership

Variable	Expected Sign	Coefficient	Std. Err.	*t*-value	*p*-value
ACS	+	0.0403	0.0149	2.71	0.0070***
ACE	+	0.1266	0.1040	1.22	0.2240
ACI	+	-0.2400	0.1307	-1.84	0.0660**
ACM	+	0.0355	0.0139	2.56	0.0110**
RMCS	+	0.0005	0.0078	0.07	0.9470
RMCE	+	0.0634	0.1848	0.34	0.7310
RMCI	+	-0.0602	0.1118	-0.54	0.5900
RMCM	+	-0.0008	0.0014	-0.55	0.5810
BLOC	+	-0.0087	0.0032	-2.74	0.0060***
BLOC_ACS	+	-0.0001	0.0004	-0.14	0.8890
BLOC_ACE	+	-0.0004	0.0023	-0.15	0.8780
BLOC_ACI	+	0.0063	0.0025	2.51	0.0120**
BLOC_ACM	+	-0.0003	0.0002	-1.21	0.2280
BLOC_RMCS	+	0.0001	0.0002	0.34	0.7300
BLOC_RMCE	+	-0.0016	0.0026	-0.63	0.5290
BLOC_RMCI	+	0.0045	0.0018	2.48	0.0130**
BLOC_RMCM	+	0.0003	0.0002	1.50	0.1330
FSIZE	+	0.0503	0.0089	5.67	0.0000***
PROFIT	+	-0.0010	0.0060	-0.17	0.8680
LEV	+	0.0151	0.0200	0.75	0.4510
AUDQ	+	0.0000	0.0000	2.96	0.0030***
INDUS	+	-0.0354	0.0347	-1.02	0.308
CONS	+	-0.5557	0.2490	-2.23	0.026**
R^2		0.83			
F-Wald		856.78			
Prob (F)		0.000			
Hausman χ^2	26.01				
Hausman *p*-value	0.100				
LM χ^2	24.81				
LM *p*-value	0.00				

Note. ***, **, and * indicate that the parameter estimates are statistically significant at the 1%, 5% and 10% levels respectively.

4.6.1 Omega Test of Effect Size

In addition, this study conducted the Omega test for effect size to ascertain the practical relevance of individual variables in the study's model as shown in Table 4.10. Based on the contribution of individual regressors, the Omega squared test shows that ACS contributed 0.006, ACE contributed 0.140 ACM and ACI contributed 0.282 of the effect size in the moderating model. Furthermore, RMCE contributed 0.050, RMCI contributed 0.004 and RMCM contributed 0.005. Similarly, BLOC contributed 0.049, Block_ACM contributed 0.268 in the model while Block_RMCM contributed 0.0169. Moreover, the contribution of Fsize was 0.244, Big4 was 0.076 while industry was 0.036. These results indicated that the Omega squared for ACS, ACE, ACM, ACI, RMCE, RMCI, RMCM, BLOC, Block_ACM, Block_RMCM, Fsize; AUDQ and Industry were 0.6%, 14%, 28%, 5%, 0.4%, 0.5%, 4.9%, 27%, 1.7%, 24%, 7.6% and 3.6%, respectively.
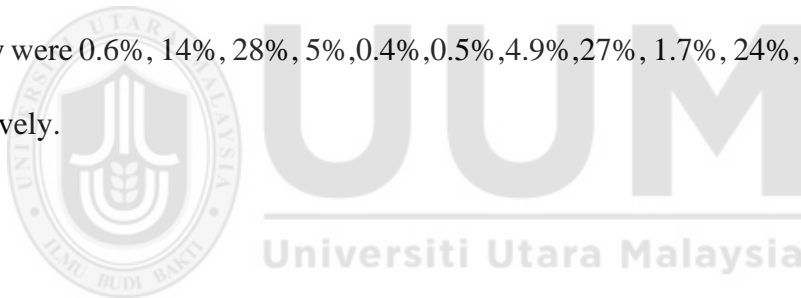
Table 4.10
Omega test of effect size

Source	Omega-Squared	df	95% Conf.	Interval
Model	0.527414	9	0.376387	0.589952
Acs	0.005691	1	0	0.066669
Ace	0.140126	1	0.045744	0.249419
Aci	0.281916	1	0.159488	0.393267
Acm	0	1	0	0.013159
Rmcs	0	1	0	0.044546
Rmce	0.050518	1	0	0.140436
Rmci	0.004396	1	0	0.063818
Rmcm	0.004555	1	0	0.064174
Bloc	0.049107	1	0	0.138466
bloc-acs	0	1	0	.032254
bloc-ace	0	1	0	.0306933
bloc-aci	0	1	0	.0225701
bloc-acm	0.267500	1	0	.1086969
bloc-rmcs	0	1	0	.0425443
bloc-rmce	0	1	0	.0572084
bloc-rmci	0	1	0	.0057198
bloc-rmcm	0.016854	1	0	.0948554
Fsize	0.244423	1	0	.5744878
Profit	0	1	0	.0241886
Lev	0	1	0	.0506518
Big4	0.076032	1	0	.0359474
Indus	0.035765	1	0	.1545435

4.7 Hypothesis Testing and Discussion of Findings

Having estimated the relationships of interest, the results are discussed in details in the following sub-sections. The discussions are based on the signs, magnitude and significance of the estimated parameters for each variable.

4.7.1 Result of Hypothesis 1a: Audit Committee Size and IFRS 7 Compliance

Hypothesis (H1a) predicted that a significant positive relationship between audit committee size (ACS) and IFRS 7 compliance by listed financial institutions in Nigeria as indicated in Table 4.8 of model 1. Results in the table show that audit committee size was statistically and positively associated with IFRS 7 compliance with disclosure

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requirements at the 1% level of significance. The result suggests that, because of their large audit committee size, financial institutions in Nigeria are likely to have more established accounting procedures that may result in higher IFRS 7 compliance. Another possible explanation for the significant positive association between ACS and IFRS 7 compliance is the possibility that members can effectively detect and prevent earnings manipulations because of the benefits of shared responsibilities as the result of a division of labour. Moreover, the positive relationship between ACS and IFRS 7 disclosure indicates that size was an important corporate governance variable that enhances regulatory enforcement of IFRS 7 disclosure compliance. This may help explain the reason why financial institutions in Nigeria recorded continuous improvement in IFRS 7 compliance during the period of this study.

On the whole, the results of the study supported this hypothesis. In this regard, several scholars have observed that the size of an audit committee may assist in the effective discharge of a firm's managerial oversight functions of checking internal control weaknesses and the reduction of asymmetry (Anderson et al., 2004; Kalbers & Forgarty, 1993; Ismail et al., 2009; Vafeas, 2005). The positive and significant association between ACS and IFRS 7 disclosure compliance suggests that more information could be made available to investors when the board is larger. In turn, this could reduce the monitoring costs in line with the arguments of agency theory (Barako et al., 2006). Ismail et al. (2009) found a significant and positive relationship between ACS and IFRS compliance in non-financial firms studied.

4.7.2 Result of Hypothesis 1b: Audit Committee Expertise and IFRS 7 Compliance

Hypothesis H1b predicts a significant positive association between the proportion of audit committee expertise (ACE) and IFRS 7 compliance by listed financial institutions in Nigeria as depicted in Table 4.8 of the direct relationship Model 1. Consistent with the study's hypothesis, the results in Table 4.8 show a positive and significant relationship between audit committee expertise and IFRS 7 compliance supported at the 10% level of significance. These results support the argument that audit committee members with accounting and finance knowledge increase the ability to ensure IFRS compliance and detect non-compliance with accounting regulatory enforcements (Cohen et al., 2002).

This study found that, with at least one financial expert on the audit committee, active involvement in committee deliberations is possible thereby ensuring IFRS 7 compliance. This finding is in line with the Securities and Exchange Commission guideline, which says that least one member of the audit committee should have accounting or financial management literacy (SEC, 2011). This study's finding aligns with the empirical findings of other scholars who found that the market positively rewards firms with financial expertise in audit committees (Abbott et al. 2004; Agrawal & Chadha, 2005; Krishnan & Visvanathan, 2008; Davidson et al., 2004).

Moreover, many previous studies have found that, because of the complex nature of financial institutions, these institutions require expert knowledge in financial reporting and auditing to help examine compliance details submitted by management (McDaniel et al., 2002; Mitchell, 2003). Other scholars have argued that financial literacy enhances

effective information disclosure in financial statements thereby reducing the possibility of fraudulent manipulations by management (Bedard et al., 2004; Bryan et al., 2004; Carcello et al., 2006; Woidtke & Yeh, 2014). The positive and significant relationship between ACE and IFRS 7 compliance as shown in the present study is a possible signal that ACE is doing a good job of detecting and preventing managerial manipulation of accounting numbers by ensuring improved financial reporting quality. Hence, the expectation is that, with adequate financial expertise on the audit and other committees such as risk management, a boost in IFRS 7 compliance will occur in Nigerian financial institutions.

4.7.3 Result of Hypothesis 1c: Audit Committee Independence and IFRS 7 Compliance

Hypothesis H1c, with respect to the proportion of audit committee independence (ACI) as shown in Model 1, predicts that a significant positive association between audit committee independence and IFRS 7 compliance by listed financial institutions in Nigeria. Contrary to the study's expectations, Table 4.8 shows that the result was not statistically significant and therefore the hypothesis is not supported. The result of ACI indicates an insignificant relationship in determining the extent of compliance with IFRS 7 disclosures requirements of listed Nigerian financial institutions.

The results of this study align with those of Kent and Stewart (2008) who found no significant relationship between AC independence and IFRS disclosures in the Australian firms that they studied. In contrast, several other prior studies have argued that independent audit committee members with high reputations and a wealth of experience are therefore respected and viewed as experts in information disclosure

(Akhigbe & Martin, 2006; Beasley, 1996; Carcello & Neal, 2000; Chau & Leung, 2006).

4.7.4 Result of Hypothesis 1d: Audit Committee Meeting frequency and IFRS 7 Compliance

Hypothesis H1d forecasts that a significant positive relationship between audit committee meeting frequency and IFRS 7 compliance by listed financial institutions in Nigeria. The results in Table 4.8 confirm this prediction to be true at a 5% level of significance shown in Model 1. The results in this study suggest that, because of the frequency of their meetings, a likelihood exists of greater IFRS 7 compliance in listed Nigerian financial institutions. The results further indicate that the monitoring role of AC in ensuring IFRS 7 disclosure compliance is influenced by the frequency of audit committee meetings, which can therefore be used as a good proxy for reducing agency costs.

This finding aligns with the objectives of the Nigerian SEC Code of Corporate Governance, which specified that audit committees should meet at least four times per financial period (SEC, 2011). This finding highlights the importance of audit committee meeting frequency for this very important statutory sub-committee of the board of directors. Previous literature has found a significant and positive association between audit committee meeting frequency and IFRS 7 compliance and associated that finding with rationale that more frequent meetings possibility mean that members may effectively discuss vital and strategic policy issues through such more frequent meetings, which produce deliberations that are more fruitful (Xie et al., 2003; Zhang et al., 2007).

4.7.5   Result of Hypothesis 2a: Risk Management Committee Size and IFRS 7 Compliance

Hypothesis H2a predicts that the level of compliance with IFRS 7 disclosure requirements is significantly and positively associated with risk management committee size. Contrary to expectations, however, this variable was not significant in explaining the relationship between RMCS and IFRS 7 compliance in listed Nigerian financial institutions. A possible reason for the insignificant relationship with respect to the risk management committee size may be due to the lack of variation in the study's variables as shown in the descriptive statistics in Table 4.4.

Previous empirical studies have found that RMCs assist in evaluating and monitoring risks identified by management and ensure adequate compliance for the disclosure of information disclosure in a firm (Allies et al., 2005; Beattie et al., 2004; Firth, 1979). The SEC Code of Corporate Governance in Nigeria is not specific with respect to the number of risk management committee members in listed financial institutions. However, several scholars from both developed and developing economies have recommended an average size of between 6-8 risk management committee members (Ahmed et al., 2006; Beasley, 1996; Klein, 2002). Vafeas (2000) observed that too many members on committees such as the RMC retard the progress of work. This is because of the need to accommodate so many opinions all aimed at ensuring enhanced disclosure and reducing information asymmetry, which is the ultimate aim of investors and other stakeholders.

4.7.6   Result of Hypothesis 2b: Risk Management Committee Expertise and IFRS 7 Compliance

This hypothesis predicts a significant and positive relationship between the proportion of risk management committee members with expertise and IFRS 7 disclosure requirements. However, the relationship was found to be insignificant as shown in Model 1 of Table 4.8. A possible reason for this relationship may be due to the lack of accounting/financial expertise in listed Nigerian financial institutions to serve in all committees, including the risk management committee. Another reason may be due to the Nigeria's SEC Code of Corporate Governance, which emphasises only accounting expertise as against all types of expertise. However, it may be possible that with an emphasis on risk expertise, compliance with risk requirements by financial institutions could be enhanced.

4.7.7   Result of Hypothesis 2c: Risk Management Committee Independence and IFRS 7 Compliance

Hypothesis H2c predicts that the level of compliance with IFRS 7 disclosure requirements by listed financial institutions in Nigeria would significantly and positively associated with the proportion of risk management committee independence. Consistent with the hypothesis, the result of the study from Table 4.8 shows that the proportion of non-executive directors serving on the risk management committee was statistically and positively associated with IFRS 7 compliance at the 5% level of significance. The finding indicates that the monitoring capacity of the non-executive directors on risk management committee was enhanced by the adoption of IFRS 7 in Nigerian financial institutions.

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The result in this study suggests that greater vigilance by independent members serving on the risk management committee produces greater scrutiny of risky proposals brought by the management in terms of policy issues, purchases or loan approvals. More intense scrutiny by the independent members should be expected to lead to higher IFRS 7 compliance in listed Nigerian financial institutions. The finding also supports the call of the Nigerian SEC Code of Corporate Governance for the risk management committee to have at least one independent member (SEC, 2011).

Overall, this hypothesis was supported and shown in Table 4.8. Prior empirical studies have supported the positive relationship between independence and IFRS mandatory disclosure compliance (Chen & Rezaee, 2012; Verriest et al., 2013). Additionally, the study's findings show that the independent of risk management committee members could be used as a good proxy for reducing agency costs, especially for financial institutions. The significant and positive association between risk management committee independence and IFRS compliance with disclosure compliance indicates that more information could be made available to investors when the risk management committee is more independent. This could reduce the monitoring costs in line with the argument of agency theory (Barako et al., 2006).

4.7.8 Result of Hypothesis 2d: Risk Management Committee Meeting and IFRS 7 Compliance

Hypothesis H2d predicts the level of compliance of risk management committee meeting frequency with IFRS 7 disclosure requirements would be positive and statistically significant. Contrary to the expectations of the study, the results presented in Table 4.8 of model 1 show that this variable is insignificant in explaining the relationship between RMCM frequency and IFRS 7 compliance with disclosure

requirements.

Prior literature argued that the frequency of meetings enhances the supervisory roles of board committees such as the risk management committee and ensures reliable and credible financial statements (Chen & Rezaee, 2012). However, a Nigerian study also found no significant positive relationship between meeting frequency and the supervisory role of a committee such as the risk management committee in non-financial companies prior to and after the implementation of the revised corporate governance code in 2011 (Madawaki & Amran, 2013).

This result is surprising, though not completely impossible to understand, because of the inadequate variation in practices among the listed firms being studied. Moreover, the descriptive statistics of this study indicate that most of the sampled companies now comply with the recommended corporate governance practice of at least four meetings per annum in striving to meet up with the current challenges presented by stakeholders. However, the results suggest that more active risk management committees do encourage a greater level of IFRS 7disclosure compliance in listed Nigerian financial institutions.

4.7.9 Result of Hypothesis 3: Block holder ownership and IFRS 7 Compliance

This hypothesis predicts a significant positive relationship between block holder ownership and IFRS 7 compliance by listed financial institutions in Nigeria. However, contrary to expectations, the result in Table 4.9 shows a negative and significant relationship at the 1% level of significance. Thus, the result suggests that block holders cannot manipulate IFRS 7 directly with the aim of dominating the company, which

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consequently leads to IFRS 7 financial instrument non-compliance in listed Nigerian financial institutions (Barry et al., 2011; Tsai & Gu, 2007).

A number of studies have argued that block investors serve a monitoring role of reducing the opportunistic behaviour of management and enhance corporate disclosure (Aguilera et al., 2012; Gugong et al., 2014; Edmans, 2014). However, other prior studies discovered that this group of investors can also act against the best interests of minority shareholder (Reese Jr & Weisbach, 2001).

The reasons for this may be three main reasons. One possible reason for the insignificant negative relationship in this study may be because of the desire of blockholders to dominate the corporate governance scene and trample on the rights of minority shareholders. Hence although the SEC Code of Corporate Governance in Nigeria encourages participation of block investors in the affairs of listed companies in which they have substantial shareholdings, the result of this current study shows the need for caution on the part of regulatory authorities. This is because studies show that the impact of block investors is sometimes negative and reducing firm value leading to higher operating expenditures and consequent losses that are detrimental to the interests of minority investors. A second reason for the negative relationship may also be due to the newly emerging trend in the international capital mobility with investors searching for business everywhere, which sometimes results in a conflict of interest between block investors and minority shareholders. A third reason for the negative coefficient may be the result of the period of study or the financial environment.

Prior studies have found similar empirical results (Dou et al., 2013; Irvine & Lucas,

2006). For instance, Dou et al. (2013) documented that block holders have very little impact on financial reporting quality. Moreover, theoretically, the argument has been made that excess blockholder ownership is capable of harming financial institutions (Andres & Vallelado, 2008; Sunusi, 2011). Similarly, Afify (2009) observed that if blockholders engage in wealth maximization over the safety and security of the institutions they invest in, they work against regulatory requirements and the expectations of minor investors. Therefore, accounting regulators should work to balance regulatory requirements and the different expectations of blockholders.

4.7.10 Result of Hypothesis 3a: Block holder Ownership, Audit Committee Size and IFRS 7 Compliance

This study hypothesizes that a significant and positive association between the moderating effect of block holder ownership and audit committee size (BLOC_ACS) and level of IFRS 7 disclosure by listed Nigerian financial institutions. However, the result did not demonstrate a significant relationship contrary to expectations as shown in the moderating relationship Model 2. This is contrary to prior empirical findings that audit committee size can help to evaluate and monitor risks identified by management and impact positively block holder wealth maximization (Allies et al., 2005). A possible reason for the insignificant association may be indirect block holder influence in the company using members of the audit committee appointed by them as proxies.

4.7.11 Result of Hypothesis 3b: Block holder Ownership, Audit Committee Expertise and IFRS 7 Compliance

Hypothesis H3b posits a positive and significant moderating relationship between block

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holder ownership and the proportion of audit committee expertise (BLOC_ACE) on IFRS 7 disclosure of listed Nigerian financial institutions. However, in divergence with the expectations of this study, the results showed an insignificant relationship. One possible explanation for this may be due to a lack of variation in practices by the listed Nigerian financial institutions. A second reason may be block holder indifference toward board committee and management training, which they view as a drain upon the expected financial benefits that may accrue to them.

Although the result was contrary to the expectations of this study, prior literature also found a negative relationship between block holder ownership and audit committee independence (Al-Shammari, 2014; Dobler, 2008; Sunusi, 2010). Moreover, a similar finding was also reported by other researchers (Abraham & Shrives, 2014; Kent & Stewart, 2008; Miihkinen, 2013).

4.7.12 Result of Hypothesis 3c: Block holder Ownership, Audit Committee Independence and IFRS 7 Compliance

This hypothesis predicts that block holder ownership moderates positively the relationship between block holder ownership, the proportion of audit committee independence and IFRS 7 compliance by listed financial institutions in Nigeria. The findings in Table 4.9 confirm this result at a 5% level of significance. The result suggests that independent audit committee members now have the ability to consult and share knowledge with block investors which they will use to company's advantage. Due to this association, independent members in audit committee are perhaps able to convince block holder investors to shelve their manipulative tendencies against minority shareholders and the company's strategic plan of adopting IFRS 7 financial

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instruments requirements that are principles based.

Previous literature has found a positive association between block investors and independent members serving on audit committees (Ahmed et al., 2014; Demirbas & Yukhanaev, 2011; Kim et al., 2009; Juhmani, 2012; Sunusi, 2012). Juhmani (2012) confirms the ability of shared knowledge and enhanced capital market ability in the interaction between audit committee independent members and block holder investors in Jordanian listed firms studied.

The results show that BLOC_ACI in Nigerian financial institutions work towards preserving the firm's values through responsibility, transparency, accountability and fairness. The positive relationship between block holder ownership and audit committee independence may also help to explain why Nigerian financial institutions are now gaining international recognition and acceptance.

4.7.13 Result of Hypothesis 3d: Block holder Ownership, Audit Committee Meeting frequency and IFRS 7 Compliance

Hypothesis H3d predicts significantly positive moderating relationship between block holder ownership and audit committee meeting frequency (BLOC_ACM) leading to higher level of IFRS 7 compliance with disclosure requirements in listed Nigerian financial institutions. On the contrary, insignificant relationship was recorded as evidenced from Table 4.9 of the moderating relationship Model 2. The result slightly reduces the ratio of IFRS 7 compliance by 0.0003 instead of enhancing it. This result is very much surprising because it is found in prior studies that more audit committee meetings result in higher IFRS financial reporting quality. For example, Chen and

Rezaee (2012) argues that meetings regularly enhance the supervisory roles of board committees such as the audit committee and ensure reliable and credible financial reports of firms. However, the result in this study does not seem to be the case with listed financial institutions in Nigeria concerning compliance with IFRS 7. This result also contradicts the findings of Kent and Stewart (2008) from Australia who found a positive relationship between meeting frequency and IFRS compliance with disclosure requirements.

4.7.14 Result of Hypothesis 3e: Block holder Ownership, Risk Management Committee Size and IFRS 7 Compliance

The moderating hypothesis with respect to block holder ownership and risk management committee size (BLOC_RMCS) predicted a significant and positive relationship with IFRS 7 financial instruments disclosure compliance. However, in a departure from the expected, an insignificant relationship with IFRS 7 compliance was observed as recorded in Table 4.9 of the moderating Model two.

The size of risk management committee of financial institutions in Nigeria may be a contributory factor. This is because no clear rule exists on the number of risk management committee members that should serve on boards and audit committees of Nigerian financial institutions. Hence, a large-size membership committee may result in contradictory contribution so that it may be difficult to move the company forward. This may also be as a result of a demand by block investors to engage in control-related activities of minority shareholders through committee member.

Prior studies have found the presence of a domineering role of block holder ownership in risk management committees through their appointed proxies on the board and on board committees (Kim et al., 2009). For instance, Kim et al. (2009) found evidence of block holder activism detrimental to minority investors in Korean listed companies studied in 2005.

4.7.15 Result of Hypothesis 3f: Block holder ownership, Risk Management Committee Expertise and IFRS 7 Compliance

Hypothesis H3f expects positive moderating relationship between block holder ownership and the proportion of risk management committee expertise (BLOC_RMCE) on IFRS 7 compliance of listed Nigerian financial institutions. Contrary to the expectations of the study however, an insignificant relationship was found. The plausible explanation for this result may be due to insufficient accounting/financial expertise especially those related to risks. Further reason may be due to heavy reliance on external auditors instead of trained in-house risk management committee personnel. According to Al-Shammari (2014), listed firm's inability to appreciate and put professionalism into better use may result in the insignificant relationships. Other scholars found evidence that insufficient accounting and financial expertise is capable of letting block holder ownership and their proxies to suppress the rights of minority and other prospective investors (Dhaliwal et al., 2010; Kent & Stewart, 2008).

4.7.16 Result of Hypothesis 3g: Block holder Ownership, Risk Management Committee Independence and IFRS 7 Compliance

Hypothesis H3g predicts that block holder ownership would positively and significantly moderate the relationship between the proportion of risk management committee

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independence and IFRS 7 compliance by listed financial institutions in Nigeria. The positive and significant sign shows the relationship was significant at the 5% level of significance as shown the moderating relationship Model in Table 4.9. One reason it that the independent members on the risk management committee were knowledgeable and, in consultation with block investors, are capable of turning the fortune of listed Nigerian financial institutions from distress to eventual profitability. Another plausible reason for the significant, positive association between BLOC_RMCI and IFRS 7 compliance may be due to the presence of more experienced members on the committee, who in association with the block holder investors, combine with independent members on the risk management committee to enhance the quality of the decision-making process.

Several studies have documented empirically the ability of independent members on board committees such as the risk management committee to help in reducing managerial opportunistic tendencies (Juhmani, 2011; Harrison, 1987; Chen & Jaggi, 2000; Klein, 2002). Juhmani, (2011) found that risk management committee members consulted block investors during the privatisation and commercialisation exercise of government businesses in Jordan.

4.7.17 Result of Hypothesis 3h: Block holder Ownership, Risk Management Committee Meeting and IFRS 7 Compliance

Hypothesis H3h of this study expects a positive moderating relationship between block holder ownership and risk management committee meeting (BLOC_RMCM) on IFRS 7 financial instruments compliance of listed Nigerian financial institutions. Differing from expectations, however, the result showed a positive and insignificant relationship

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as depicted in Table 4.9 of the moderating relationship Model two. The probable reason for this may be due to so many members at the meeting especially those related to risks. This result can be interpreted to mean that blockholder ownership does influence risk management committee meeting frequency of listed Nigerian financial institutions but the relationship is insignificant. Block holder resentment for too much risk committee meetings where policy decisions on loans or advances may likely be taken during meeting that run contrary to their business interests may account for the insignificant relationship. This is because block holders may likely work through their proxies to discourage such meetings because the will impact their interest negatively.

4.7.18 Summary of Hypotheses Testing Results

Having discussed results from a total of 17 tested hypotheses of this study, a summary of the results is provided in Table 10. As can be observed from the table, under Model 1 for a direct relationship, audit committee size, audit committee expertise, audit committee meeting and risk management committee independence are found to have significant impact on IFRS 7 compliance a the 1%, 10%, 1% and 10% levels respectively. Under the moderating relationship, however, block holder ownership, moderation between block holder ownership and audit committee independence and moderation between block holder ownership and risk management committee independence on IFRS 7 compliance was found to be significant at the 1%, 5% and 5% levels respectively.

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Table 4.11
Results of Tested Hypothesis

Hypothesis		Pred. Sign	Results	Supported/Not supported
H1a	There is a significant positive relationship between audit committee size and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Audit committee size is positive and significantly related to IFRS 7 compliance at the 1% level of significance	Supported
H1b	There is a significant positive relationship between proportion of expertise in audit committee and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Audit committee expertise has positive and significant relationship with IFRS 7 compliance at 10%.	Supported
H1c	There is a significant positive relationship between audit committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Audit committee independence has no significant relationship with IFRS 7 compliance.	Not supported
H1d	There is a significant positive relationship between the frequency of audit committee meetings and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Audit committee meeting frequency is positively and significantly related to IFRS 7 compliance at 5%.	Supported
H2a	There is a significant positive relationship between risk management committee size and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Risk management committee size positively but not significantly relate with IFRS 7 compliance.	Not Supported
H2b	There is a significant positive relationship between risk management committee expertise and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Risk management committee expertise has positive but not significant relationship with IFRS 7 compliance.	Not Supported

Table 4.11
Results of Tested Hypothesis

Hypothesis		Pred. Sign	Results	Supported/Not supported
H₂c	There is a significant positive relationship between risk management committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Risk management committee independence is positively and significantly related to IFRS 7 compliance at 5%.	Supported
H₂d	There is a significant positive relationship between risk management committee meeting frequency and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Risk management committee meeting frequency has no significant relationship with IFRS 7 compliance.	Not supported
H₃	Block holder ownership positively and significantly affects IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership significantly affects IFRS 7 compliance.	Supported
H₃a	Block holder ownership positively moderates the relationship between audit committee size and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership do not significantly moderate the relationship between ACS and IFRS 7 compliance.	Not Supported
H₃b	Block holder ownership moderates the relationship between audit committee expertise and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership do not significantly moderate the relationship between ACE and IFRS 7 compliance.	Not Supported
H₃c	Block holder ownership moderates the relationship between audit committee independence and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership positively and significantly moderates ACI and IFRS 7 compliance at 5%.	Supported

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Table 4.11
Results of Tested Hypothesis

Hypothesis	Pred. Sign	Results	Supported/Not supported
H$_{3d}$ Block holder ownership positively moderates the relationship between audit committee meeting frequency and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership do not significantly moderate the relationship between ACM and IFRS 7 compliance.	Not Supported
H$_{3e}$ Block holder ownership positively moderates the relationship between RMCS and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership do not significantly moderate RMCS and IFRS 7 compliance.	Not Supported
H$_{3f}$ Block holder ownership positively moderates the relationship between RMCE and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership do not significantly moderate the relationship between RMCE and IFRS 7 compliance.	Not Supported
H$_{3g}$ Block holder ownership moderates the relationship between RMCI and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership positively and significantly moderates RMCI and IFRS 7 compliance at 5%.	Supported
H$_{3h}$ Block holder ownership moderates the relationship between RMCM and IFRS 7 compliance by listed financial institutions in Nigeria.	+	Block holder ownership do not significant in moderating the relationship between RMCM and IFRS 7 compliance.	Not Supported

4.8   Sensitivity Analysis

This study conducted robustness checks to ensure that the regression results are not sensitive to alternative measurements of some independent variables of the study. Sub-section 4.9.1 examines the robustness of two independent variables (ACE and ACI)

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results using alternative measures of the variables.

4.8.1   Robustness of the Independent Variables

This sub-section examines the robustness of the model using alternative measures of audit committee expertise and audit committee independence. Table 4.12 presents the results of robustness check by using the actual number of audit committee expertise and the actual number of audit committee independence instead of taking their respective proportions as done in the original model in Table 4.9.

Table 4.12
Alternative model with different measurement of IVs

Variable	Expected Sign	Coefficient	Std. Err	*t*-value	*p*-value
ACS	+	0.068	0.023	2.950	0.003***
ACE	+	0.019	0.018	1.110	0.269
ACI	+	-0.040	0.022	-1.810	0.070*
ACM	+	0.036	0.014	2.570	0.010***
RMCS	+	0.001	0.008	0.070	0.943
RMCE	+	0.059	0.184	0.320	0.749
RMCI	+	-0.065	0.111	-0.580	0.562
RMCM	+	-0.001	0.001	-0.510	0.611
BLOC	-	-0.004	0.002	-1.670	0.096*
BLOC_ACS	+	-0.001	0.001	-1.700	0.088*
BLOC_ACE	+	0.000	0.000	-0.140	0.888
BLOC_ACI	+	0.001	0.000	2.510	0.012**
BLOC_ACM	+	0.000	0.000	-1.190	0.235
BLOC_RMCS	+	0.000	0.000	0.370	0.713
BLOC_RMCE	+	-0.002	0.002	-0.610	0.539
BLOC_RMCI	+	0.005	0.002	2.580	0.010***
BLOC_RMCM	+	0.000	0.000	1.470	0.141
FSIZE	+	0.049	0.009	5.510	0.000***
PROFIT	+	-0.001	0.006	-0.150	0.880
LEV	+	0.014	0.020	0.680	0.495
AUDQ	+	0.000	0.000	2.960	0.003***
INDUS	+	-0.033	0.036	-0.920	0.360
CONS	+	-0.702	0.218	-3.220	0.001***
R^2		0.83			
F-Wald		876.07			
Prob (F)		0.000			
Hausman χ^2		22.41			
Hausman *p*-value		0.130			
LM χ^2 test		25.30			
LM *p*-value		0.000			

Note. ***, **, and * indicate that the parameter estimates are statistically significant at the 1%, 5% and 10% levels respectively.

The results in Table 4.12 confirm the explanatory power of the model using alternative proxies both of which has an R^2 of 83%. The difference in measurement of audit committee expertise and audit committee independence does not change its relationship with the dependent variables, although there are changes in level of significance of the coefficients. The parameters of both the ACE and ACI were positive and at the 10%

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level of significance in both the main model and the robustness check (alternative) model.

Although the majority of the variables maintained their relationship in the alternative model, a slight variation exists in some parameters. For instance, block holder ownership on audit committee size became positive and significant at the 10% level of significance in the sensitivity analysis. Block holder ownership was negative and significant at the 1% level of significance in the main model while it was positive and significant at the 10% level of significance in the alternative model. However, block holder ownership on audit committee independence and block holder ownership on risk management committee independence, which were positive and at the 1% level of significance, are now positive and significant at the 5% level of significance. Furthermore, the moderating effect of block holder, audit committee expertise and audit committee size were negative and insignificant in the main model but positive in the alternative model, although not statistically significant due to the changes in the measurement of audit quality.

4.9   Individual Coefficients by Industry

This section highlights differences and similarities (if any) between banks and insurance companies listed on Nigerian Stock Exchange for the period of this study. In addition to the Chow test, which indicated that significant differences existed between the two financial institutions (banks and insurance), the study further divided the sample into banks and insurance companies to assess the level of their compliance with IFRS 7 disclosure requirements based on industry differences (Chow, 1960). Table 4.11 shows that, although both ACE and ACI were significant under both banking and

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insurance models, the level of significance and magnitude of the coefficients were higher under banking model compared to the insurance model. However, the audit committee expertise variable under insurance model was found to be negative.

Similarly, under the risk management committee characteristics only risk management committee independence (RMCI) was found significant in the banking model without such significance in the insurance counterpart. However, only risk management committee size became significant under the insurance model. Moreover, block holder ownership as moderator was only statistically significant in the insurance model but was not significant in the banking model.

Table 4.13
Variable Coefficients

Variable	Insurance				Banks			
	Coeff.	Std. Err.	t-value	p-value	Coeff.	Std. Err.	t-value	p-value
ACS	0.054	0.024	2.22	0.03**	0.062	0.169	0.37	0.71
ACE	0.363	0.182	1.99	0.05**	0.373	0.242	1.54	0.12
ACI	-0.213	0.216	-0.99	0.32	-1.099	0.323	-3.41	0.00***
ACM	0.032	0.021	1.53	0.13	0.018	0.015	1.16	0.24
RMCS	-0.020	0.078	-0.25	0.80	0.002	0.012	0.20	0.84
RMCE	-0.020	1.633	-0.01	0.99	-0.178	0.258	-0.69	0.49
RMCI	-0.140	0.195	-0.72	0.47	0.230	0.134	1.71	0.09*
RMCM	-0.012	0.024	-0.51	0.61	0.004	0.006	0.66	0.51
BLOC	-0.006	0.014	-0.41	0.69	-0.013	0.011	-1.12	0.26
BLOC_ACS	0.000	0.001	-0.54	0.59	-0.001	0.002	-0.43	0.66
BLOC_ACE	-0.002	0.006	-0.33	0.74	-0.010	0.005	-2.11	0.04**
BLOC_ACI	0.005	0.004	1.40	0.16	0.016	0.004	3.86	0.00***
BLOC_ACM	0.000	0.000	-0.54	0.59	-0.001	0.000	-1.50	0.13
BLOC_RMCS	0.000	0.001	0.06	0.96	0.000	0.000	1.47	0.14
BLOC_RMCE	-0.012	0.029	-0.40	0.69	0.004	0.004	0.90	0.37
BLOC_RMCI	0.005	0.002	2.24	0.03**	0.005	0.004	1.16	0.25
BLOC_RMCM	0.001	0.001	0.83	0.41	0.000	0.000	0.76	0.45
FSIZE	-0.003	0.022	-0.15	0.88	0.098	0.007	13.54	0.00***
PROFIT	-0.005	0.019	-0.28	0.78	-0.001	0.006	-0.18	0.86
LEV	-0.022	0.025	-0.88	0.38	0.041	0.108	0.38	0.71
AUDQ	0.000	0.000	0.17	0.86	0.000	0.000	1.23	0.22
CONS	0.419	0.864	0.48	0.63	-0.969	0.867	-1.12	0.26
R^2	0.242				0.984			
F-Wald	638.05				44.66			
p-value	0.000				0.000			

Note. ***, **, and * indicate that the parameter estimates are statistically significant at the 1%, 5% and 10% levels respectively.

The moderating effect of BLOC_ACE and BLOC_ACI was observed in the banking model while the insurance model was moderated by BLOC_RMCI. This implies that that Block holder ownership moderates two audit committee variables in the banking model while in the insurance companies block holder ownership moderates one; these are the risk management committee (BLOC_RMCI) variable respectively. Furthermore, only firm size was found to be significant for the banking model but was not significant in the insurance model.

Overall, the adequacy of the model was found to be higher in the banking model than in the insurance model. This is explained by the significant probability values of F statistics. The R^2 of the model shows that 98% and 24% of variations in IFRS 7 compliance are explained by the variables in banking and insurance entities respectively. This result indicates further that banks complied more with IFRS 7 disclosure requirements than insurance companies did in the sample. The result also reveals that the variation in IFRS 7 compliance was better and more significantly explained by the independent variables in the banking model than in the insurance model.

4.10 Summary

This chapter includes the empirical investigation and establishes new evidence with regard to the effects of corporate governance characteristics, namely, audit committee characteristics, risk management committee characteristics, the interaction of these corporate governance characteristics with block holder ownership, the control variables and IFRS 7 financial instruments disclosure compliance. A number of key findings are highlighted below.

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First, the empirical results support audit committee size, audit committee expertise, audit committee independence, audit committee meeting frequency and risk management committee independence. However, they do not support risk management committee size, risk management committee expertise and risk management committee meeting frequency. The negative and insignificant relationship of block holder ownership and IFRS 7 disclosure indicates that block holder ownership as a corporate governance mechanism did not directly influence IFRS 7 compliance in listed financial institutions of Nigeria, a developing economy. However, empirical results positively supported the interactive effects of block holder ownership on audit committee independence and risk management committee independence and IFRS 7 compliance relationship.

Interestingly, the sensitivity analysis in Table 4.14 of this study found that the hypotheses are not sensitive to changes in the measurement of the dependent variables and audit quality. Finally, the variable coefficient in the interactive model reveals that six variables (audit committee meeting, 0.021; moderation of audit committee meeting, 0.028; moderation of risk management committee meeting, 0.017; firm size, 0.244; audit quality proxy by Big4 audit firm, 0.076; Industry, 0.036) were the major practical and significant contributors to the model.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

5.1   Introduction

This chapter summarises the key empirical findings of the study and their contributions to literature and practical relevance. The chapter is, therefore, organised as follows. Section 5.2 provides a summary of the study's key findings. Section 5.3 discusses the implications of the study. This study's conclusions are highlighted in Section 5.4 while Section 5.5 provides policy recommendations based on the findings. The chapter ends with the study's limitations and suggests directions for future research in Section 5.6.

5.2   Summary of Findings

The main objectives of this study were to measure the level and extent of IFRS 7 financial instruments compliance with disclosure requirements by listed financial institutions (banks and insurance) in Nigeria for 2012, 2013 and 2014 and to examine the effect of audit committee characteristics (size, expertise, independence and meeting frequency). This study also investigates the effect of risk management committee characteristics (size, expertise, independence, meeting frequency) on IFRS 7 financial instruments disclosure requirements and examines the moderating effect of block holder ownership on the relationship between audit committee characteristics and risk management committee characteristics and IFRS 7 financial instruments disclosure by listed financial institutions in Nigeria.

The findings of this study indicate that listed financial institutions in Nigeria complied with an average of 51% of IFRS 7 financial instruments disclosure requirements. Although positive improvement was seen throughout the study period from 2012 to

2014, the result suggests room for improvement still exists in the level of compliance by Nigerian financial institutions on the types of risk disclosure especially market risk and liquidity risk for which the level of compliance is very low. This also means that more improvement is needed by the financial reporting council of Nigeria (FRCN) in the area of regulatory enforcement so as to facilitate the process of attracting foreign investments through an increase in market efficiency and a decrease in the costs of capital. This result indicates higher compliance with the requirements of IFRS 7 financial instruments for the listed banks than for the listed insurance companies studied.

In terms of industry, a significant difference in IFRS disclosure exists between bank and insurance companies with respect to leverage, which is higher in banks, and with respect to firm size and profitability which are higher in banks than in the insurance industry. Furthermore, in terms of audit quality, banks are audited more by Big 4 audit firms (52) than by non-Big 4 audit firms (6) indicating a positive and significant compliance at a 5% level of significance. In contrast, more insurance companies were audited by non-Big 4 firms (57) than Big 4 firms (30) with the results indicating a positive but not significant relationship. Overall, high leverage, large size, higher profitability and higher audit quality were associated with high compliance of IFRS 7.

The empirical results provided evidence of a statistically significant and positive relationship between audit committee characteristics and IFRS 7 financial instruments disclosure. Despite the fact that Nigeria enhanced her corporate governance code only in 2011, the study found ample evidence that audit committee characteristics employed in this study were positively related with the level of IFRS 7 financial instruments

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disclosure of listed financial institutions in Nigeria. This signifies that any increase in audit committee size, expertise, independence and meetings will work towards increasing the level of IFRS 7 compliance by Nigerian listed financial institutions. This is found at the 1% level of significance for both audit committee size and meeting frequency as well as at the 10% significance level for the audit committee expertise for the direct relationship. However, audit committee independence did not significantly influence IFRS 7 compliance. This indicates the needs for further support to enhance the oversight role of the audit committee.

Risk management committee attributes also had a significant relationship with IFRS 7 financial instruments disclosure of Nigerian financial institutions. Risk management committee size was not significant for both direct and moderating relationships. Nevertheless, the sensitivity analysis indicated that risk management committee size was positive at the 5% level. This shows that an increase in risk management committee size leads to a corresponding increase in the level of IFRS 7 compliance with disclosure requirements. Risk management committee expertise was not significant for either the direct or moderating relationship. As for the sensitivity analysis, however, the relationship revealed a positive and significant relationship at the 5% level. Thus, an increase in risk management committee expertise increases the ratio of IFRS 7 financial instruments disclosure. Nonetheless, risk management committee expertise had an insignificant relationship under the sensitivity analysis of the moderating relationship.

The relationship between risk management committee independence and IFRS 7 compliance documents was positive and significant for a direct relationship but insignificant relationship when moderated with blockholder ownership in the model.

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The sensitivity analysis showed that risk management committee independence was also positive and significant at the 5% level. This means that an increase in risk management committee independence results in a corresponding increase in the extent of compliance with IFRS 7 disclosure requirements. The number of risk management committee meetings did not have significant relationship for either the direct relationship or the moderated relationship with block holder ownership. The sensitivity analysis conducted found that the risk management committee meeting was not significant under the direct relationship. However, the variable had s positive and significant relationship with respect to the moderation analysis. This means that an increase in risk management committee meetings leads to an increase in the level of compliance with IFRS 7 disclosure requirements. Furthermore, the block holder ownership had an insignificant relationship with IFRS 7 compliance of listed Nigerian financial institutions studied.

For the block holder ownership (as a direct relationship), the result of the study confirmed the findings of prior studies concerning the relationship between block holder ownership and IFRS compliance with disclosure requirements. This study found that an increase in block holder shareholding in financial institutions decreases compliance with the disclosure requirements of IFRS 7 for financial instruments. This means that block holder is not likely to insist on a higher level of compliance with IFRS 7 financial instruments disclosure requirements. Hence, the finding of this study does not support the idea that block holder ownership and board of directors are substitutes in terms of compliance with IFRS 7 financial instruments disclosure requirements. This study's result is consistent with Ismail and El-Shaib (2012) who found block holder ownership had a negative and significant relationship with the voluntary disclosure

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level of information in Egyptian companies studied.

When blockholder ownership is introduced as moderator. however, the relationship between audit committee independence and IFRS 7 compliance documented a positive and significant relationship at 5% level of significance. The results show that block holder ownership serves to strength the work of independent directors and to enhance the compliance level of IFRS 7 financial instruments disclosure. Moreover, this result also shows the ability of independent directors serving in both the audit committee and the risk management committee to protect the interests of block holders who appoint them on the board to enhance their wealth maximisation drive. The result of this study also demonstrates the ability of independent directors in both audit and risk management committees of Nigerian financial institutions to monitor the activities of management so as to protect the interests of the block holders. Hence, a higher level of IFRS 7 compliance is achieved through the moderation of block holder ownership with independent directors serving on both the audit committee and risk management committee of listed Nigerian financial institutions.

Audit committee size was significant when moderated by block holder ownership. Furthermore, audit committee expertise was not significant both under the moderating and the sensitivity analysis. This means that block holder ownership negatively enhanced the relationship between audit committee expertise and IFRS 7 compliance by the listed financial institutions in Nigeria. The audit committee meeting variable showed an insignificant relationship for both the moderating relationship and sensitivity analysis.

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Risk management committee size was not significant when moderated with blockholder ownership. However, the sensitivity analysis indicates that risk management committee size was positive and significant with block holder ownership. This indicates that block holder ownership positively enhances the moderating relationship between risk management committee size and IFRS 7 compliance of the listed financial institutions. Risk management committee expertise was not significant when moderated with block holder ownership but was significant under the sensitivity analysis. This result shows that block holder ownership negatively enhances the relationship between risk management committee expertise and IFRS 7 compliance by the listed financial institutions. The result of risk management committee meeting had an insignificant relationship under moderation as well as in the sensitivity analysis model.

5.3 Implications of the Findings

This section looks at the implication of the study from theoretical perspectives, namely, agency and resource dependency theories and its practical and policy contributions.

5.3.1 Theoretical Implications

Prior empirical findings in corporate governance and international financial reporting standards studies have used a number of theories to explain relationships. These theories were at times competing but most times complementary in explaining the relationships between corporate governance mechanisms and IFRS compliance. Agency theory has been predominantly employed to monitor and control management opportunistic behaviour in corporate management. This study's findings show that audit committee size, audit committee independence and audit committee meeting frequency are good proxies for reducing agency costs with respect to IFRS 7 disclosure

in the annual reports of financial institutions in Nigeria.

The agency theory supports the positive and significant relationship of audit committee characteristics and risk management committee characteristics, and the resource dependency theory further explains the role of independence in both audit committee and risk management committee characteristics of the board in pushing for IFRS 7 financial instruments disclosure in the sampled financial institutions within the period of study.

For instance, the hypothesised independent variables (audit committee characteristics and risk management committee characteristics) and their relationships with the dependent variable (IFRS 7 financial instruments disclosure) clearly indicate the benefit of multiple theories as compliments showing positive and significant signs on most of the study's variables as expected. Moreover, audit committee expertise and audit committee independence had positive and significant relationship for both the direct and moderating relationships. This result is expected because, while agency theory is a mechanism for monitoring and control of management by audit committee board members, resource dependency theory views independent members as resource mobilisers who have shared knowledge and experience to assist the entire board. However, the direct relationship of IFRS 7 financial instruments disclosure with risk management committee characteristics had a negative and insignificant relationship. While risk management committee independence had a positive and significant result, risk management committee size, risk management committee expertise and risk management committee meeting frequency had a positive coefficient although they failed to demonstrate any significant relationship with IFRS 7 financial instruments

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disclosure requirements. Hence, the study fails to find significant evidence to show that this variable helps to solve the agency problem by increasing the level of IFRS 7 compliance.

In contrast, block holder ownership had a negative relationship with IFRS 7 financial instruments disclosure. However, the effect of block holder ownership and the interaction between risk management committee independence can be explained by the resource dependency theory. The findings under risk management committee characteristics may require secondary theories to further explain the importance of sub-committees in Nigerian financial institutions.

This study provides empirical evidence that other governance mechanisms such as risk management committee characteristics (size, expertise, independence and meeting frequency) have a positive and significant influence on the integrity of financial report prepared using IFRS 7 financial instruments disclosure requirements.

This study provides an idea of how developing countries and emerging markets, particularly Nigerian financial institutions, use IFRS 7 financial instruments disclosure in their financial reporting duties. It is expected that increased transparency through IFRS 7 financial instruments disclosure that provide timely and accurate information should enable financial institutions gain access in today's globalised capital markets. More specifically, risk management and risk control are only possible through market discipline that is based on efficient committees such as audit committee and risk management committee of the board of directors. Increased transparency through IFRS 7 financial instruments disclosure should reduce the frequency of fraud and other

deleterious issues in Nigerian financial institutions. The financial reporting council of Nigeria should also intensify efforts through on the job training of its existing work force who will, in turn, will conduct organised training, workshops and conferences for all listed companies on IFRS disclosure consistent with the call for such in prior studies (Anyahara, 2012; Adegbite, 2012).

However, the negatively significant relationship between block holder ownership and IFRS 7 compliance reveals high individualistic tendencies. This might be associated with value maximisation objectives of block investors at the expense of the security and safety of the investing entities. Another possible reason for this negative interaction is that the monitoring role of block holders may be affected by "networks" or "business ties", which is a form of low-cost skilled marketing efforts through phone, email and others means to form business relationships and act upon identified opportunities so recognised, which are almost non-existent in the Nigeria's domestic business environment (Claessens et al., 2000).

Moreover, the interactive role of independent directors in both the audit committee and the risk management committee have been of immense benefit in stemming the negative effects of block holder ownership upon IFRS 7 compliance. The positive and significant relationship between block holder ownership and audit committee independence on one hand and between block holder ownership and risk management committee independence on the other should further be encouraged.

With the significant association between block holder ownership and risk management committee independence, policies that may encourage transparency in risk management

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approvals and in rendering reports should be implemented. This will not only lead to more compliance but will also boost the credit portfolio of Nigerian financial institutions leading to higher lending and profitability.

5.3.2 Practical Implication

The Financial Reporting Council of Nigeria is a new regulatory body whose implementation road map only started on December 31, 2011. Although policy decisions regarding disclosure and corporate governance should not depend on a single empirical project, the findings in this study may be of benefit in enhancing current corporate governance and IFRS regulations in Nigeria. This study's findings may also serve as a rich source of information for the improvement of existing regulations. This may be achieved through input by the Financial Reporting Council of Nigeria to the International Accounting Standards Board.

The Securities and Exchange Commission Code of Corporate Governance in Nigeria requires the board of directors to establish a risk management committee and design implementation strategies for managing risks. This responsibility highlights the need for knowledge, skills and expertise on risks to understand risks related to financial reporting and oversee potential risks instead of applying politically motivated suggestions. Thus, this study serves as eye opener to further improve the risk reporting requirements of financial institutions especially as regards block holder ownership and risk management relationships.

Mandatory continuous training programmes to boost the competence and efficient performance of committee members to successfully discharge their assigned

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responsibilities are very essential. The findings in this study support calls for the establishment of audit committee and risk management committee on the boards of Nigerian financial institutions. Furthermore, the Financial Reporting Council of Nigeria should encourage listed companies such as banks and insurance companies to have educated, experienced and dedicated directors who can serve on any committee with commitment and are able to devote ample time and effort towards monitoring managerial actions. While a risk management committee may require risk experts, this study is only concerned about accounting and financial expertise. This may likely be one reason for findings of this study on risks.

In the same vein and contrary to the SEC Code of Corporate Governance, the new regulatory authority, the Financial Reporting Council of Nigeria may wish to define expertise to include different professional skills for prospective board members who share knowledge with their fellow colleagues in the various sub-committees. This may enhance the contribution of expertise in the implementation of the corporate governance code and enhance compliance with IFRS framework.

Board of directors and executive management as decision experts in financial institutions need to attract both local and international investors through the globalised capital markets. The findings of this study may assist investors in effectively assessing the role of corporate governance mechanisms and IFRS 7 financial instruments disclosure relative to the reliability of financial reports of listed financial institutions in Nigeria. It may also help to address the negative relationship between block holder ownership and international financial reporting standards disclosure in both direct and moderating relationships in financial institutions in Nigeria. This study is of the view

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that this negative relationship may be the main reason why Nigerian financial institutions are facing problem of illiquidity, mergers and, in some instances, outright liquidation. Thus, the study may create a needed awareness of the concern of minority shareholders about the lack of transparency in corporate governance practices with boards of directors and board committees nominated or appointed by block investors on considerations other than business enhancement (Haniffa & Hudaib, 2006).

The result of present the study may assist in setting up an academic foundation by the financial reporting council of Nigeria for the study of corporate governance mechanisms and risk management in financial institutions and other sectors. This is as a result of the recent findings that the lack of effective risk management was a root cause of the world financial crisis in 2008. Moreover, instead of focusing only on the board of directors, audit committee characteristics and financial reporting quality, more empirical studies need to be conducted around other dimensions of risk management and financial instruments risk disclosure in developing economies and emerging markets in future.

The result presented in this study may be useful to other academic researchers in the field of financial reporting compliance and corporate governance mechanisms in Nigeria and other developing economies in financial institutions with similar characteristics. Different approaches using a combination of corporate governance attributes that are likely to contribute towards the effectiveness of corporate monitoring and control with alternative accounting regulations should be explored. This may assist in changing the fortunes of financial institutions and their shareholders for the better in the post-financial crisis period.

Based on the findings of the study, Nigeria has achieved an average level of compliance with the mandatory disclosure practices for IFRS 7 financial instruments and has made positive progress in corporate governance regulation. Although no financial institution has complied fully with all the mandatory requirements of IFRS 7 disclosure, there is nonetheless a compliance rate of a little more than average (51%) with the disclosure requirements as reported in the annual reports of the sampled Nigerian listed financial institutions. Although financial institutions in Nigeria have a large number of regulations, monitoring and enforcement by authorities such as the Central Bank of Nigeria, the Nigerian Insurance Company and the Nigerian Deposit Insurance Corporation, governance is still weak. More needs to be done in the area of enforcement by the financial reporting council of Nigeria to ensure full compliance with disclosure requirements.

This study reveals that IFRS 7 financial instruments disclosure and corporate governance practices show a comparatively average level of compliance in Nigerian financial institutions. This finding also suggests that the Financial Reporting Council of Nigeria needs to strengthen its current enforcement mechanism by enhancing the skills and abilities of its current work force through training, workshops and seminars. The council should design good remuneration packages to attract qualified staff and force government commitment through enforcement of the policy. In this regard, based on findings of the study, policy makers in Nigeria should further regulate the activities of blockholder investors.

Policy makers in Nigeria should formulate forward-looking policies aimed at enhancing the role of independence to bring about a stronger audit and internal control activities.

They should also strengthen dealings on financial relationship between block investors and minority shareholders to restore the confidence hitherto enjoyed by Nigerian financial institutions.

Furthermore, based on the adoption of IFRS in Nigeria since 2012, financial institutions may need to be redesigned to handle such issues as executive barriers to information especially relating to IFRS 7 financial instruments disclosure. In this regard, the need for training and re-training on the job to make the staff literate in accounting and financial management becomes imperative. Only by so doing can that the confidence of minority shareholders and other stakeholders be restored.

5.4   Limitations of the Study

This study is restricted to only the Nigerian financial sector and therefore cannot be generalised to all the listed companies in Nigeria. Additionally, the period of study is limited to only the first three years (2012-2014) of IFRS adoption but disclosure is expected to increase with a concomitant increase in familiarity with the disclosure requirements by practitioners. Furthermore, the findings of this study may not be applicable to developed countries and some emerging markets with high investor protection rights and less block holder ownership. This is because, as mentioned earlier, conflict of interest in developing countries differs depending on the legal settings. For instance, Nigeria has very week investor protection rights with a conflict of interest gradually tilting away between the owners of means of production and management to major shareholders and minority shareholders.

This study employs only two broad attributes of corporate governance, audit committee

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characteristics and risk management committee characteristics each of which has four dimensions: 1) size, 2) expertise, 3) independence and 4) meeting frequency. It is possible that other external and internal factors such as board characteristics, chief executive officer education and the cultural diversity of committee members that were not included in this model may also contribute to IFRS 7 financial instruments disclosure.

5.5 Suggestions for Future Research

Future studies may consider the issue of data availability and sample size, which are usually major constraints for academic study in developing economies. Similarly, the sample size of the study was 50 financial institutions, which may be considered adequate. A larger sample size in statistical analysis such as multiple regression may be more appropriate and may give more robust results.

Future research may consider conducting a similar study in other African countries with similar characteristics within the same West African region such as Ghana, and in other countries such as South Africa that have more listed financial institutions. A study with the benefit of a larger sample size may possibly provide more interesting insights on the role of corporate governance characteristics and IFRS 7 compliance by listed financial institutions. It may thus reduce the current dearth of studies and clearly show the peculiarities in African financial institutions in contrast to the current use of literature from listed companies in developed countries.

This study measures compliance with IFRS 7 financial instruments disclosure in financial institutions (banking and insurance) only. Future studies may examine non-

financial companies that may have dealings with financial instruments to provide a bigger picture of the impact of corporate governance characteristics on IFRS 7 financial instruments risk disclosure in Nigeria. Future studies may examine the impact of corporate specific characteristics on IFRS 7 financial instruments risk disclosure.

Furthermore, this study relied only on annual reports to measure risk disclosure; yet, information about risk can be obtained from so many other sources such as interim reports, press-releases, web sites, and prospectus. These sources of information other than the annual report or in combination with the annual report should be employed in future studies of IFRS 7 compliance.

Finally, future study may need to explore the reasons for corporate disagreement between block investors and minority shareholders in Nigerian financial institutions. With an increase in number of years and sampled entities, future studies should use other methods such as the generalised method of moment. This will help in accounting for the problem of endogeneity in the presence of a wider sample over a reasonably long period of time compared to the present study's time frame.

5.6 Conclusions

The present study focused on the moderating effect of block holder ownership on the relationship between corporate governance attributes and IFRS 7 financial instruments disclosure by listed financial institutions in Nigeria. In order to maintain a high quality of IFRS 7 financial instruments disclosure transparency and build investors and other stakeholders' confidence, it is necessary to comply with guidelines in the regulatory frameworks. In addition, all guidelines and pronouncements issued by international

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organisations such as the World Bank, IMF, BASEL, IASC and the financial reporting council of Nigeria (FRCN) from time to time should be followed in order to attain the international standards best practices for disclosure.

Based on findings of the study Nigeria has achieved average standard of IFRS 7 financial instruments mandatory disclosure practice and made tremendous progress in corporate governance regulation. Despite the fact that no financial institution has complied fully with all the IFRS 7 financial instruments mandatory disclosure requirements, there is nonetheless a high compliance rate with the disclosure requirements as reported in the annual reports of the sampled Nigerian listed financial institutions. This may be due to the fact that financial institutions in Nigeria have been closely monitored by regulators such as the Central Bank of Nigeria, the Nigerian Deposit Insurance Corporation and the Nigerian Insurance Company.

This study, therefore, reveals that IFRS 7 financial instruments disclosure and corporate governance practices showed a comparatively high level of compliance. This finding suggests that the financial reporting council of Nigeria need to strengthen its current enforcement mechanisms by enhancing the skills and abilities of its current work force through training, workshops and seminars. The council should design good remuneration packages to attract qualified staff and force government commitment through enforcement of the policy.

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IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURE CHECKLIST		

Name of Company:		
Year end:		

	IFRS 7 DISCLOSURE TEMPLATE		
	IFRS 7- Financial Instruments: Disclosure (132 items)	Y	N

1(2)	Does the entity disclose in the financial statements
	    a) The significant financial instruments (r1)(G)
	    b) The company's nature & extent of risks?(r2)(G)		

2(6)	Does the entity apply the requirements of IFRS 7 to all derivatives embedded in
	    a) Subsidiaries (r3)(G)
	    b) Associates (r4)(G)
	    c) Joint ventures (r5)(G)
	    d) Employee benefits (r6)(G)
	    e) Insurance contracts (r7)(G)
	    f) Equity instruments? (r8)(F)		

3(2)	Does the entity disclose recognised &unrecognized financial instruments such as
	    a) Financial assets? (r9)(F)
	    b) Financial liabilities? (r10)(F)		

4 (1)	Does the entity apply the requirements of IFRS to buy or sell a non-financial item? (r11)(G)		
5(1)	Does the company group financial instruments into appropriate classes? (r12)(F)		
6 (1)	Does the company give sufficient information in the financial statement to users? (r13)(G)		
7 (1)	Does the company's financial statement show the true position & performance to users? (r14)(G)		

8 (6)	Does the company disclose in its financial statement:
	    a) Its financial assets at fair value (r15)(F)
	        i. Upon initial recognition
	        ii. Held for trading
	    b) Held to maturity (r16)(F)
	    c) Loans & receivables (r17)(F)
	    d) Available for sale (r18)(F)
	    e) Financial liabilities at fair value showing (r19)(F)
	        i. Those designated upon initial recognition
	        ii. Those held for trading
	    f) Financial liabilities at amortized costs? (r20)(F)		

9(5)	Did the enterprise designate a loan or receivable at fair value: (a) Through profit & loss? (r21)(M) (b) Show maximum exposure to credit risks? (r22)(C) (c) Indicate the amount of related credit? (r23)(C) (d) Indicate changes during the year? (r24)(C)		

	i. At fair value not attributable to change in market condition? ii. Using other method faithfully representing the change? e) The amount of change in fair value of any instrument? (r25)(L)		

10 (3)	Does the entity designate a financial liability at fair value:
	    a) Through profit & loss? (r26)(C)
	    b) Does it disclose the amount of change to credit risks? (r27)(G)
	        i. At fair value not attributed to changes in mkt. condition?
	        ii. Using alternative costing method?
	    c) Does the entity show the diff. between the carrying amount and the maturity amount? (r28)(C)		

11(2)	Does the entity disclose:
	    a) The method used to comply with credit risks? (r29)(C)
	    b) Are the reasons for an alternative method relevant? (r30)(L)		

12(2)	Does the entity disclose the measured financial assets
	    a) At fair value? (r31)(F)
	    b) At amortized cost? (r32)(F)		

12A (6)	Does the entity reclassify its financial assets:
	a) As far category? (r33)(F)
	b) For each reporting period? (r34)(F)
	c) In rare situation? (r35)(F)
	d) Indicate the reporting period for reclassification? (r36)(F)
	e) The loss or gain in reclassification for each reporting period? (r37)(F)
	f) the effective: (r38)(M)
	    i. Interest rate?
	    ii. Estimated cash flow?
	    iii. Date of reclassification?		

13 (3)	If financial assets of the entity qualify for de-recognition:
	    a) Is the nature of the assets disclosed? (r39)(F)
	    b) Is the carrying amount of assets & liabilities disclosed? (r40)(F)
	    c) Is the carrying amount of original assets, the amount of asset recognised and the carrying amount of liabilities disclosed? (41)(F)		

14 (2)	Does the entity disclose
	    a) The carrying amount of assets pledge as collateral? (r42)(C)
	    b) The terms and conditions relating to the pledge? (r43)(C)		

15(2)	If the entity is permitted to sell or repledge a collateral:
	    a) Disclose the fair value of such collateral sold or repledge or the obligation to return (r44)(C)
	    b) Disclose the terms & conditions for use of the collateral (r45)(C)		

16(2)	Disclose the entity record:		

	a) Credit losses in a separate account? (r46)(F)		
	b) Changes in reconciliation account during the period for each financial asset? (r47)(F)		
17 (1)	Does the entity disclose the existence of compound financial assets with multiple embedded derivatives? (r48)(C)		

18(1)	Did the entity's loan payable recognised at end of reporting period disclose:
	    a) Details of default in (r49)(G)
	        i. Principle
	        ii. Interests
	        iii. Sinking fund or
	        iv. Redemption terms		

19 (2)	a) Does the entity breach loan agreement terms other than in 18 above? (r50)(C) b) Did the breach demand accelerated repayment? (r51)(M)		

20 (5)	Does the enterprise disclose in statement of comprehensive income:
	 a) Net gain or losses in (r52) (F)
	   i. Financial assets or liabilities at fair value upon initial recognition
	   ii. Available for sale financial assets showing profit or loss upon recognition
	   iii. Investments held at maturity
	   iv. Loans & receivables
	   v. Financial liabilities at amortized costs?
	 b) Total interest income & expenses not at fair value in P& L? (r53)(F)
	 c) Fee income & expenses arising from (r54)(F)
	   i. Financial assets or liabilities?
	   ii. Unit trust, investments for individuals, institutions or retirement benefit plans
	 d) Accrued interest income on impaired financial assets? (r55)(F)
	 e) Amount of impairments loss per financial asset? (r56)(F)		

21 (1)	Does the company disclose its significant accounting policies in such a way that is relevant to an understanding of the financial statement? (r57)(G)		

22 (3)	Does the enterprise disclose separately:
	    a) All the hedges (fair value hedge, cash flow hedge, hedges on net investment in foreign operations) (r58)(F)
	    b) A description of hedge instrument and their fair value at end of reporting period (r59)(F)
	    c) The nature of risks being hedge? (r60)(F)		

23 (5)	Does the enterprise disclose for cash flow hedges:
	   a) Period it is expected to affect p & L? (r61)(F)
	   b) A description of forecast transaction previously used but no longer expected? (r62)(M)
	   c) The amount recognised in other comprehensive income during the period (r63) (G)
	   d) The amount reclassified from equity to P & L during the period (r64)(G)
	   e) The amount removed from equity & included in the initial cost or other carrying amount of non-financial asset or non-financial liability during the period? (r65)(G)		

24 (3)	Does the entity disclose separately:
	   a) In fair value hedges, gains or losses: (r66)(C)
	       i. The hedging instruments?
	      ii. The hedged item attributable to the hedged risk
	   b) The ineffectiveness recognised in P &L arising from cash flow hedges (r67)(C)
	   c) The ineffectiveness recognised in P & L arising from hedge net investments in foreign operations? (r68)(G)		

25 (1)	Does the entity use fair value to prepare its assets& liabilities accounts in a way that permits it to be compared with its carrying amount? (r69)(F)		
26 (1)	Do the entity group financial assets & liabilities into classes and offset them at their carrying amount in the statement of financial position? (r70)(F)		

27 (4)	Does the entity disclose:
	   a) The method and valuation technique used and the assumptions applied in determining fair value of each class of financial assets and liabilities? (r71)(L)
	   b) Are fair values determined: (r72)(L)
	       i. In hole?
	      ii. In part in active market or estimated using a valuation technique?
	   c) Are the fair value changes disclose and its effect recognised in other comprehensive income? (r73)(F)
	   d) If (c) applies, does the total amount of change disclose use such valuation technique recognised in P &L during the period? (r74)(C)		

28 (2)	Does the entity disclose:
	   a) Its accounting policy by class of financial instruments that enable market participant's consideration in setting a price? (r75)(G)
	   b) A reconciliation of changes between transaction price & the valuation technique effected? (r76)(M)		

29 (3)	Does the entity ignore fair value because: a) The carrying amount is a reasonable approximation of fair value? (r77)(M)		

	b) An investment in equity instruments or derivatives linked to equity instrument cannot be measured reliably? (r78)(F)		
30 (5)	Does the entity disclose: a) The information previously not disclose because the fair value can't be measured reliably? (r79)(C) b) Information on financial instruments, carrying amount and explanations of why the fair value can't be measured? (r80) (M) c) Information about market of the instrument to help users make their own judgments? (r81)(M) d) Information about how the entity intends to dispose of financial instruments? (r82)(M) e) Gains or losses in derecognized financial instruments previously not measurable now recognised? (r83)(M)		
31(1)	Does the entity disclose risk information to users of financial statement at end of the reporting period? (r84)(F)		
32 (1)	Does the entity disclose all its types of credit risk? (r85)(C)		
33 (3)	Does the entity disclose: a) All its exposure and how they arise? (r86) (G) b) Its objectives, policies & processes for managing risk and the methods used to major risk? (r87)(G) c) Any change in exposure, objectives, policies or methods used to major risk? (r88)(G)		
34 (2)	Does the company disclose: a) A summarized data on its risk exposure at the end of the reporting period? (r89)(F) b) Its concentration of risk exposure? (r90)(G)		
35(1)	Does the company give additional information on quantitative data about its representative risk? (r91)(M)		
36 (4)	Does the entity disclose by class of financial instruments: a) The total amounts of its credit risk exposure? (r92) (C) b) A description of collateral security held on the amount exposed? (r93)(C) c) Information about the credit quality of its present financial assets? (r94)(C) d) The carrying amount of financial assets whose terms have been renegotiated? (r95)(M)		
37 (3)	Does the entity disclose by financial assets: a) An analysis of the age of unimpaired financial assets at end of the reporting period? (r96)(L) b) An analysis of impaired financial assets and factors determining their impairment? (r97)(L) c) Their total amount, security held and an estimate of their fair value? (r98)(L)		
38 (2)	Does the entity disclose: a) The nature and carrying amount of asset held as collateral? (r99)(C)		

	b) Its policies for disposing assets when they are not readily convertible into cash? (r100)(G)		
39 (2)	Does the entity do: a) An analysis of financial liabilities contractual maturity? (r101)(M) b) Manage its liquidity risk? (r102)(L)		
40 (3)	Does the entity disclose a) A sensitivity analysis of all its market risk at end of reporting period? (r103) (M) b) The methods and assumptions used in preparing the sensitivity analysis? (r104)(M) c) Any change(s) in the sensitivity analysis assumptions used from previous with reason for such change? (r105)(M)		
41(2)	Does the entity explains: a) The method used in preparing the sensitivity analysis? (r106)(M) b) The objective of the method used and its limitations (r107)(M)		
42 (1)	Does the company disclose the unrepresentativeness of sensitivity analysis applied? (r108)(M)		
43 (1)	Does the entity disclose the period of application of IFRS 7 in its financial statement? (r109)(G)		
44 (1)	Does the entity present comparative financial information about the nature and extent of risks arising from financial instruments? (r110)(F)		
45 (6)	Does the entity: a) Present fairly its position, performance & cash flows? (r111)(F) b) Include a statement of its financial position (balance sheet) at end of the reporting period? (r112)(F) c) Include a statement of P &L, comprehensive income and other reports for the period? (r113)(F) d) Include a statement of change in equity for the period? (r114)(F) e) Include a statement of cash flows for the period? (r115)(F) f) Provide explanatory notes on significant and other accounting policies? (r116)(G)		
46 (1)	Does the company present a single statement of P & L and other comprehensive income in two sections? (r117)(F)		
47 (1)	Does the entity present all the financial statements with equal prominence? (r118)(F)		
48 (1)	Does the entity disclose separately each material & dissimilar class of items? (r119)(F)		
49 (1)	Does the company make an unreserved statement in the notes that, the financial statement complies with all the requirements of IFRS? (r120) (G)		

50 (1)	Does the entity prominently identify the financial statements as against other information in the published documents? (r121)(G)		
51 (1)	Does the entity identify each financial statement and the notes? (r122)(G)		

52 (5)	Does the entity:
	    a) Display with equal prominence the name or means of identification or any change of information from the end of the previous reporting period? (r123)(G)
	    b) Disclose whether the financials are individual or group? (r124)(G)
	    c) Disclose the period covered or the end of the reporting period? (r125)(G)
	    d) Disclose the presentation currency? (r126)(M)
	    e) The level of rounding up used in presenting amounts in the financial statement? (r127)(M)		

53 (2)	Does the entity show:
	    a) Whether regular way purchases and sales of financial assets are accounted for at trade date? (r128)(L)
	    b) Whether regular way purchase and sales of financial assets are accounted for at settlement date? (r129)(L)		

54 (3)	Does the entity disclose in the notes:
	    a) The basis of preparation & specific accounting policies used? (r130)(G)
	    b) Information that is not presented elsewhere in the financial statement? (r131)(G)
	    c) Information that is not presented elsewhere but relevant to an understanding of the financial statement? (r132)(G)		

Source: Generated by Researcher from PwC checklist (2013)

Key:

1. r1, r2, r3……………………..r132 are the disclosure requirements of IFRS 7.
2. G…………………………….General Risks
3. M……………………………Market Risks
4. L…………………………….Liquidity Risks
5. C…………………………… Credit Risks
6. F…………………………….Financial Risks
7.