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EFFECT OF AUDIT COMMITTEE ATTRIBUTES TAX AGGRESSIVENESS OF OIL AND GAS COMPANIES IN NIGERIA

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Abstract

This paper assesses the effect of audit committee attributes on tax aggressiveness of listed oil and gas companies in Nigeria from 2011-2020. Data for the study was collected from the annual reports and accounts of the companies and regression analysis was used as a technique for data analysis. The study found that there is an insignificant negative relationship between audit committee size (ACS), audit committee independence (ACIND) and tax aggressiveness using effective tax rate as a measure. Audit committee frequent meeting (ACFM) and audit committee financial expertise (ACFE) however exhibits a positive significant relationship with ETR. The study recommends that oil and gas firms in Nigeria should always strengthen their audit committee attributes and continue to maximize opportunities and advantages that align to older firms operating in the market for better improvement in operations and increase in tax aggressiveness, since older firms are able to enjoy larger economic of scales.

Keywords: Audit, Attributes, Tax, Tax aggressiveness

1 Introduction

Audit Committee as a concept has now acquired mass coalesce as a mandatory element of corporate governance code (Bouaziz, 2012). Instances of accounting and audit failures and heightened concern of investors about the corporate reports of companies in the developed world led to the establishment of Treadway Commission (1987) in US, Cadbury Committee (1992) in United Kingdom and McDonald Commission (1987) in Canada (Bradbury, 2016). The aforementioned committees emphasized on the need for the establishment of audit committee as a board sub-committee comprising of independent directors to ensure the credibility of financial statements. Audit committee was promoted on voluntary basis as part of corporate governance reforms (Bronson, 2019), and gained significant acquaintance with the formation of specialized committees like Blue Ribbon committee (BRC) in 1999. This critical role of Audit Committee is believed to be a means of improving economic efficiency and stakeholders' confidence in the organizations through financial standard compliance. However, to achieve this, audit committee should possess some certain attributes which include independence of the committee, frequency of meetings, and the size of the committee and financial knowledge of the committee members (Brown, 2019).

However, audit committees are independent of the management and have sufficient authority over the operations, transactions, documents and all the relevant records to perform their duties. Audit committee functions with these attributes are expected to ascertain a true and fair view of the financial performance and position of companies and also enhance the confidence of the investors and other stakeholders. Studies have been carried out by several authors the audit committee. Most of these researchers based their study on the effect of audit committee report and audit committee size, composition, expertise and audit committee meeting on financial reporting quality (Carcello, 2011). However, there is limited evidence on the effect of audit committee monitoring function on financial reporting via investors' perception in Nigeria. This study is carried out to close the identified knowledge and make some contributions to knowledge. Audit Committee members are expected to have knowledge and experience of business risk, oversight performance, financial situations and accounting policies that will help in monitoring the activities of an entity (Chakravarthy, 2016). Therefore, Audit Committees are valuable and rare resources of any entity and entities with higher resources and capabilities in the Audit Committee tend to gain reputation in the long run. Indeed, the existence of an Audit Committee in a body would provide a critical oversight of the entity's financial reporting and auditing processes (Choi, 2017).

Taxation therefore, is an obligatory payment charged by government on the profits of individuals and businesses. For tax burden of a business concern to be minimized, tax aggressiveness becomes imperative for management. Tax aggressiveness is an effort to apply lawful hitches to circumvent recompensing or minimize the payment of tax. However, when this is achieved through some illegal means, acts protect investors and other stakeholders' interest and enhance the credibility of financial reporting or procedures, it is seen as a deceit or fraud and so criminal.

To promote businesses and increase shareholders' wealth, tax aggressiveness plays a very significant role. In Nigeria, studies on audit committee characteristics and tax aggressiveness have remained unexplored as there is dearth of research in this area. Some studies (such as Onyali & Okafor, 2018; Oyesola & Adelabu, 2017; Odoemela, 2016; Olayinka & Francis, 2016; Okoye & Akenbor, 2010) have examined audit committee characteristics and tax planning in Nigeria from different perspective, though with mixed findings and inconclusive. Establishing a link between audit committee and tax aggressiveness in the Nigerian Oil & Gas marketing firms is the knowledge gap that drives this study.

2. Motivator

Over the years there have been major irregularities in the way companies have reported financial information in their annual reports. The notion of tax aggressiveness and financial reporting quality is tantamount to the effectiveness of the external audit process and overseeing the external audit process is the prime responsibility of the audit committees. The notion of tax aggressiveness and financial reporting quality is also synonymous with the 'true and fair' view of financial statements that is expected by shareholders. One way of ensuring financial statements is 'true and fair' is by assessing the quality of tax aggressiveness and earnings presented in these statements. If the audit committee is effective in its role, then tax aggressiveness and earnings quality will not be compromised. The quality of tax aggressiveness and earnings stands as an indirect measure of the efficiency of the audit committee. Thus, assessing tax aggressiveness and earnings quality is a good way of investigating audit committee (including different characteristics) efficiency.

3. Objectives

The main objective of this study therefore is to investigate the impact of audit committee attributes on tax aggressiveness in Nigeria with implication on oil and gas companies. However, the specific objective of the study includes:
1. To examine the significant impact of Audit committee size on Tax Aggressiveness of oil and gas firms in Nigeria.
2. To what extent does Audit committee Independence impact on Tax Aggressiveness of oil and gas firms in Nigeria
3. To analyze the correlational effect of Audit committee frequency of meetings on Tax Aggressiveness of oil and gas firms in Nigeria
4. To evaluate the impact of Audit committee financial expertise on Tax Aggressiveness of oil and gas firms in Nigeria.

4. Literature Review

In the last few years, research on tax aggressiveness, broadly defined as the downward management of taxable income through tax planning activities (Frank, 2019) has gained momentum within academic research. A growing number of scholars has indeed investigated its antecedents (Rego, 2012 & Klassen, 2017), its consequences (Chyz, 2013 & Donohoe, 2014), and its relationship with financial reporting more broadly, (Frank, 2019 & Lennox, 2013).
The increased interest in tax aggressiveness can be explained, at least in part, by the increase in the number of cases of tax aggressiveness reported in the news and by the debate that these cases have triggered. From a stakeholder theory perspective (Kim, 2016), tax aggressiveness is ethically questionable because firms are expected to pay a fair amount of taxes, providing the funds for public services such as healthcare, education, and infrastructure, public services from which they benefit too, either directly or indirectly. Tax aggressiveness, however, is problematic even when we adopt a shareholder theory perspective (Songini & Gnan, 2015), because revelations of tax aggressive behaviors may damage a firm's reputation and affect its share price (Leung, 2013 & Knechel, 2014). According to this perspective, then, the decision to engage in tax aggressive behaviors ultimately rests on an assessment of the relative expected costs and benefits associated, (Chen, 2010 & Pierk, 2016). The main benefit of tax aggressiveness is obviously tax savings, which may subsequently be used to grow the firm, to distribute higher dividends to shareholders, and/or to increase managers' direct and indirect remuneration. In contrast, the costs of tax aggressiveness are mainly associated with the reputational and financial costs that tax aggressive firms may incur if revelations of such behaviors become public, with implementation costs (time and effort to manage taxable income), and with agency costs (including rent extraction).
Empirically, Ruggers (2017) conducted a study on the impact of committee meeting on the financial performance of banks in United States of America. In his study he

reported that frequency of meetings of the risk management has a significant positive effect on the performance of banks in U.S. Furthermore, a study by Tao and Hutchinson, (2016) on the effect of audit committee's attributes on financial performance of commercial banks. In their study, they found that the frequency of the audit committee meetings enable them to share ideas that assist them to with stand any pressure from management and obtain all the necessary information for monitoring risks of companies which will result in better monitoring and control of the audit and risk of the company and ultimately lead to enhanced firm performance.In another study conducted by Tao and Hutchinson (2018) on the effect of Audit Committee Composition on the financial performance of financial institutions in Australia, it was documented that risk committee composition is positively related to risk and performance of financial firms in Australia. More so, Adebayo (2018) conducted his study on Audit Committee Composition and Corporate Social Responsibility of Nigerian Petroleum Marketing Industry. He found that ACC is positively associated with corporate social responsibility disclosure in the Nigerian petroleum marketing industry.

5. Materials and Methods

This study adopted Ex-post Facto research design since data was source from already existing annual accounts. Ex-post Facto research is otherwise referred to as after-the fact, research that is undertaken after the events have taken place and the data are already in existence. It therefore investigates the possible causes and effects of a subsisting relationship between variables. The study covered the period of ten years (10) i.e., 2011-2020. This period was selected because it was intuitively believed that was period that the required data are probably availably ready for accessing and extraction from annual reports of six sampled oil and gas firms in Nigeria.
Multiple regression analysis was used to analyze whether an association exists between dependent variable and independent variables. Tax aggressiveness (ETR) is the dependent variable while the independent variables; audit committee attributes (size, independence, frequency of meetings and financial expertise).

6. Data Analysis

Table 1: Result for Correlation Analysis

	ETR	**ACS**	**ACIND**	**ACFM**	**ACFE**
ETR	1.0000				
ACS	-0.2427	1.0000			
ACIND	-0.0653	0.5157	1.0000		
ACFM	0.3861	-0.3759	-0.3374	1.0000	
ACFE	0.0453	0.0916	0.1162	-0.1660	1.0000

Source: SPSS output, 2021.

Table 1 reveals the degree of relationship between the dependent and independent variables and among the independent variables as well as the level of their significance. ETR from the table has a negative correlation with ACS of -0.2427.

ETR also has a negative relationship of -0.0653 with ACIND. Furthermore, the relationship between ETR and ACFM is 0.3861, explaining a positive relationship. Finally, ACFE and ETR has a positive correlation of 0.0453. Generally, the result from the table shows that problem of multicolinearity is not anticipated. Though, a further test was carried out to ascertain this condition.

Table 2: Fixed Effect Regression Result

Variable	**Coefficient**	**t- value**	**p- value**
Constant	1.0910023		
ACS	-0.4605764	-1.50	0.141
ACIND	0.0076319	2.04	0.048*
ACFM	-0.1514684	-2.02	0.050*
ACFE	0.0898102	3.30	0.002**
F- statistics		8.53	0.0000**
R- squared		0.1430	

Source: SPSS output of robust linear regression (*and ** represent significant levels at 0.05 and 0.01), 2021.

Table 3: Shows the ANOVA for Regression Analysis

Model	Sum of Square	df	Mean Square	F	Sig.
Regression	1.823E+17	6	3.038E+16	3.883	0.042^b
Residual	2.347E+16	3	7.824E+15		
Total	2.058E+17	9			

Source: SPSS output, 2021.

ETR = 1.091- 0.461fACS + 0.008ACIND - 0.151ACFM + 0.090ACFE + μ

From table 2, ACS has a coefficient of – 0.4606, t- value of -1.50 and p- value of 0.141 which explains a negative non-significant impact on ETR. This implies that any 1% increase in ACS results to 0.4606 % change in ETR that is, as ACS increases, there is a decrease in ETR holding all other variables constant. The coefficient of ACIND reveals a positive significant impact on ETR since the coefficient is 0.008, t-value is 2.04 and p- value is 0.048. This implies that for every 1% increase in ACIND there is a resulting 0.008% increase in ETR with statistically significant evidence. This implies that if ETR increases, ACIND will also increases, all other variables held constant and the result is convincing since t-value is statistically significant. The ACFM coefficient shows a negative significant impact on ETR since the coefficient is -0.151, t- value of -2.02 and p-value of 0.050. This implies that for every 1% increase in ACFM, ETR will decreased by 0.151% and significant at 1% holding all other variables constant. The ACFE coefficient shows that it has a positive significant impact on ETR with coefficient of 0.090, t-value of 3.30 and p-value of 0.002. This explains that for every 1% increase in ACFE causes an increase on tax aggressiveness by 0.090% and it is statistically significant.

7. Result Discussion

ACS has a coefficient of – 0.4606, t- value of -1.50 and p- value of 0.141 which explains a negative non-significant impact on ETR. This implies that any 1% increase in ACS results to 0.4606 % change in ETR that is, as ACS increases, there is a decrease in ETR holding all other variables constant. This finding is consistent with that of Abdullahi et al (2011) who documented a negative correlation between ACS and ETR and considers ACS as the strongest contributor that explains ETR in their model. While the studies by Yana (2010) and Pavlos (2008) contradict this finding, as their studies found a positive and significant relationship between ACS and ETR. Therefore, this study accepts the null hypothesis which states that ACS has no significant impact on ETR. The coefficient of ACIND reveals a positive significant impact on ETR since the coefficient is 0.008, t- value is 2.04 and p- value is 0.048. This implies that for every 1% increase in ACIND there is a resulting 0.008% increase in ETR with statistically significant evidence. This implies that if ETR increases, ACIND will also increases, all other variables held constant and the result is convincing since t-value is statistically significant. This result is in consistent with the findings of Heydar et al (2009); Tih (1998) who found a positive and negative significant relationship respectively between ACIND and ETR (Tax Aggressiveness). But, contradicts the studies of Laurent (2000); Yana (2010); Humera et al (2011). Thus, the study rejects the null hypothesis; ACIND has no significant impact on ETR.
The ACFM coefficient shows a negative significant impact on ETR since the coefficient is -0.151, t- value of -2.02 and p-value of 0.050. This implies that for every 1% increase in ACFM, ETR will decreased by 0.151% and significant at 1% holding all other variables constant. This result confirms the work of Ben et al (2013); victor et al (2013), while it contradicts the findings of Qasim and Ramiz (2011). The study therefore, has enough evidence to accept the null hypothesis that states ACFM as a determinant of ETR has no significant impact on tax aggressiveness.
The ACFE coefficient shows that it has a positive significant impact on ETR with coefficient of 0.090, t-value of 3.30 and p-value of 0.002. This explains that for every 1% increase in ACFE causes an increase on tax aggressiveness by 0.090% and it is statistically significant. This finding confirmed the works of Tsutomu et al (2010) that revealed a positive and significant impact on ETR and that of Yana (2010) that showed a significant negative impact on tax aggressiveness. Therefore, the study has sufficient to conclude on the hypothesis, hence we rejected the null hypothesis; ACFE has no significant impact on tax aggressiveness.
The aggregate value impact on tax avoidance shows that ACS, ACIND, ACFM and ACFE explain an overall variation in tax avoidance of 14% as indicated by the R-squared (0.1430). While 86% variation in tax aggressiveness (ETR), is caused by other factors not captured in the model of this research. The table further reveals that F- statistics is 8.53 and F-significance is 0.0000 which shows that the model is fit and significant at 1%.

8. Conclusion

A firm is a legal fiction which serves as a nexus for a set of contracting relationship among individuals. Despite this contracting relationship that exists among them, these individuals have various interest points and thus struggle that their interest points are met. Implying that, shareholders and others stakeholders of a firm always expect and look forward for high and better tax aggressiveness result. Hence, there is a need for managers of firms to be at their best to ensure that tax aggressiveness does not decline or the firm they oversee does not fail or go out of existence. The study therefore concludes based on the findings of the result that;

1. ACS is not a determinant of tax aggressiveness in Nigeria oil and gas industries.
2. ACIND is a determinant of tax aggressiveness in Nigeria oil and gas industries.
3. ACFM is a determinant of tax aggressiveness in Nigeria oil and gas industries.
4. ACFE does determine tax aggressiveness in Nigeria oil and gas industries.

The conclusion from the study when compared to some of the oil and gas companies, for example Con oil Nigeria plc, Forte oil, Total oil and others shows that the conclusions on ACS, ACIND, ACFM and ACFE are justified. Because, some of these firms are no longer in existence, which could be as a result of not effectively and efficiently maximizing these variables for better output, giving us an explanation and a reason for their failures in operation. However, the conclusions also do not in totality confirms nor justifies the reality of other oil and gas companies who are currently operating well in Nigeria, for example Seplat oil, Exxon mobile, etc. The reasons could also be that the companies have understood the industry and have maximized all resources and variables under study to get them to the present state of their business operations.

9. Recommendations

Following the findings of this study, we therefore recommend that;

1. The study recommends that only needed assets should be invested and acquired by management of oil and gas firms in Nigeria which might likely impact tax aggressiveness.
2. The oil and gas firms should borrow only for profitable ventures. Otherwise, alternative means of funding should be employed. Though, such condition is not what is obtainable in reality in the companies, however these companies should not compromise in the future.
3. Oil and gas firms in Nigeria should always maintain a reasonable level of ACIND, which is the case. Since ACIND if managed adequately, helps to meet firms' obligations when they fall due and also able to increase tax aggressiveness.
4. ACFE from oil and gas firms must at no time, allowed to be under optimally used, since firms in order to compete favorably now acquire a large proportion of intangible assets (human resource, invest huge funds on research and development and others) to allow them achieve desired result.

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