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Executive and non-executive auditors and environmental disclosure among listed firms in Nigeria

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ABSTRACT

This study confirmed the relationship between executive and non-executive auditors in relation to environmental disclosure among the annual reports of environmentally sensitive listed companies in Nigeria. This is in line with the objective of this research that is to examine empirically the role of executive and non-executive auditors on the environmental disclosures of environmentally sensitive listed companies in Nigeria. The data of the study is collected from the financial annual reports of the said listed companies during as at 31st December, 2014. The dependent variable environmental disclosure is derived from the Global Reporting Initiative checklist while the executive and non-executive auditors are the number of executive and non-executive auditors in the audit committee of the company respectively. Using ordinary least square regression to test the hypothesis of the study however, the result of the study shows that while executive auditors have no significant relationship with environmental disclosure, non-executive auditors is found to be positively significant impacted on environmental disclosure in Nigerian environmentally sensitive listed industries.

Keywords:
Executive auditors, Non-executive auditors, Environmental disclosures, Environmentally sensitive industries

1. Introduction

Nigeria is seen as one of the core polluters of the environment directly or indirectly simply because, the country was listed as the second to in the world for polluting environment through gas flaring from oil industries according to [23]. This pollution is associated mostly to environmentally sensitive industries as against its counterpart [9, 15, 27].

Hence, it appears environmental disclosure is to be a vital aspect of reporting as [37] argued that the disclosure of environmental activities of companies could control the communications gap between the firms and its stakeholders. In addition, [3] argued that, environmental disclosure is an exclusive part of accounting where it was regarded as an important aspect in an advanced country

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but, this is not the case in Nigeria as there are insignificant reporting behaviour [2, 5, 25, 34]. Since there is little research in the aspect therefore, this study seen the need for further research on environmental disclosure especially in Nigeria.

To maintain the worthiness of the environmental disclosure, therefore, executive auditors and non-executive auditors are considered. This is because, they play a vital role on disclosure of both financial and non-financial matters [29, 33]. In addition, auditors are part of corporate governance [1]. Though, many studies were conducted on environmental disclosure and committees but limited studies were conducted on the executive and non-executive auditors [21]. Many studies supported that, auditors which include both executive and non-executive auditors could enhance the transparency and credibility of the disclosure of annual report rendered by companies [12].

For the reason earlier discussed previously, this study currently pays attention on the empirical relationship between executive auditors and environmental disclosure and non-executive auditors and environmental disclosure in Nigeria. Other sections of this study are literature, the methodology, the analysis of the study and the conclusion of the study.

2. Literature

The auditors' composition of members is composed of executive and non-executive auditors where they play a vital role for the standard and control of environmental disclosure practices of companies [14, 22, 28] furthermore, they act on behalf of the to make sure all transactions are included as guided by the Securities and Exchange Commission of Nigeria in the case of this study [22]. As a result, executive and non-executive auditors are predicted to influence environmental disclosure.

2.1 Executive auditors

Executive auditors are vital as they key on the role they play on disclosure as they have duty to perform for the interest of the company and the laws. Among those duties, protection of the firm's integrity is one as they are concerned about the existence of the company and the control of fraud which could put the company image in bad light [11]. Their opinion on the whole disclosure is also said to be very important as the executive auditors are also a key members of board where is included in internal factors of corporate governance mechanism [32]. For the fact that they are keen on the integrity of the company thus, this study expects the higher number executive members on audit committee the more efforts to they will have on the audit report and the more the disclosure [18] therefore, this could have more possibility of impact on the management opportunism through the attention derived from both stakeholders and environmental concerned [35]. All the same, it is still believed that the greater the executive auditors on audit committees, the more the disclosure as they will be attractive to the problems at hand where their attention could focus on. A larger executive on auditors' committee the more the company's capability to understand and tackle the numerous problems that are of utmost concerned since they are to protect the firms' legitimacy in addition to the legal interest [36], which consecutively promotes the accountability and transparency where it will lead to an increase on disclosure (environmental disclosure inclusive) [4, 20, 22]. Additionally, the authorizations of a well standard system hence, improves a decision making [17, 30, 31, 36].

Despite so many studies on executive auditors in audit committees and disclosure therefore, the empirical evidence on the said relationship between executive auditors and environmental disclosure is quite limited. Thus, the following hypothesis is proposed:

H1 There is a positive relationship between executive auditors and environmental disclosure.

2.2 Non-executive auditors

The number of non-executive auditors on the company's audit committee is carefully seen as an important aspect where it impacts the disclosure of the firms under consideration in general [24] where environmental disclosure is not in isolation in relation to general disclosure in accordance with [22]. The non-executive auditors more often concentrate more on disclosure issues be it financial or non-financial which include environmental responsibility [38] therefore, the deliberation on environmental disclosure is also to be absorbed by the said auditors. For the fact that they are considered more for tackling the disclosure issues, non-executive auditors ordinarily are apparently seen as a mechanism for monitoring, controlling and managing discrepancies on the financial reporting of companies [10], this may perhaps fetch almost extra facts on disclosure be it financial, non-financial and environmental. Additionally, there may possibly be supplementary level of neutrality by the non-executive auditors and could reflect the role they play while making their efforts along with the commendations in their final report for considerations [24].

Contrary to the believe for abundance research on environmental disclosure on the other hand, empirical research on the association between non-executive auditors and environmental disclosure is inadequate [8, 31, 34, 25]. Thus, the following hypothesis is proposed:

H2: There is a positive relationship between the non-executive auditors and environmental disclosure.

3. Research methodology

This study focused on the relationship between executive and non-executive auditors and environmental disclosure in Nigeria considering listed environmentally sensitive firms for the period of 2014 using secondary data as source. The data is collected from the annual reports of the 38 environmentally polluted industries.

A multiple regressions analysis is employed on the cross sectional data. Consequently, the study employed Ordinary Least Square since is suitable for the analysis of data. In general, the model employed for cross sectional data analysis using Ordinary Least Square, is presented as follows;

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_k X_{ki} + e_i \tag{1}$$

Where Y_i is the dependent variable for each companies i; β_0 is constant value and assumed all other variables are zeros. In addition, X1i, X_2i and X_{ki} represent the explanatory variables of the model. Where also i mean individual company for the estimation and finally e_i is residuals of the model.

Base on the model of this study therefore, this study comprises the explained variable and explanatory variables. Thus, the dependent variable is environmental disclosure and is measured using checklist derived from Global Reporting Initiative supported by [22]. The Environmental disclosure comprises twenty-nine items. The score is applied as 1 if the items are disclosed and 0 otherwise. The total scores derived from each reporting of the industry is considered the measurement of the environmental disclosure (CED).

The explanatory variables for this study is composed of executive auditors (EXC), defined and measured as total number of executive auditors on audit committee and non-executive auditors (NEXC), measured as total number of non-executive members on audit committee.

Based on these variables, the empirical results are thus based on the following regression model;

$$CED_i = \beta_0 + \beta_1 EXC_i + \beta_2 NEXC_i + e_i \quad (2)$$

The regression model is estimated using ordinary least squares technique which according to wooldridge (2011) provides a consistent estimate of β_0 (intercept) and $\beta_{1\text{-}2}$ (slopes). Where,
CED = Environmental Disclosure
EXC = Executive Auditors
NEXC = Non-executive Auditors
e = Error term of the model
i is cross sectional indicator of the data
β_0 is constant where of the model
β_1 is the parameter of EXC
β_2 is the parameter of NEXC

4. Results and discussion

Table 1 OLS regression estimate is presented for the establishment of the relationship between the dependent and each of the independent variables.

Table 1
Regression results

Dependent Variable: ED				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	6.067186	1.473832	4.116607	0.0002
EXC	0.076923	0.397052	0.193736	0.8476
NONEXC	0.8987**	0.341674	2.630387	0.0129
R-squared	00.174101	Durbin-Watson stat		1.962551
F-statistic	3.47823**	Prob(F-statistic)		0.042589

*** Significant at 1% level. ** Significant at 5% level. * Significant at 10% level.
Authors computations using EViews 8 software

The Table 1 above shows the parameters of the model, the values of their significances, the collective significances base on F-Statistics, the R-square of the model, the Durbin Watson and probability of F-Statistics of the model. From the result thus, the model of the study is:

$$CED_i = 6.07 + 0.08\, EXC_i + 0.90\, NEXC_i \quad (3)$$

From the model the value of the constant (β_0) is 6.07. This is an indication that, the environmental disclosure starts with the value of 6.07 when all executive and non-executive auditors take value of zero thus, environmental disclosure is 6. From the model also, executive auditors have positive relationship with environmental disclosure however, is not statistically significant at all level of significances. This is seen from the parameter β_1 with the value of 0.08. This indicates there is no sufficient evidence to support that an increase in executive auditors in the audit committee will improve environmental disclosure by the said value of 0.08. Hence, the null hypothesis that proposed there is no relationship between executive auditors and environmental disclosure is hereby could not be rejected. That means the said relationship seen in the regression happen by chance.

In related development, non-executive auditors have positive relationship with environmental disclosure. In addition, the established relationship is significant at 5% level of significance. Thus, increase in non-executive auditors is seen to increase environmental disclosure by the value of 0.9 as seen in the parameter of the model β_2 therefore, this study conclude that the said relationship exist it can since it is significant. Therefore, the hypothesis that said the more the non-executive auditors, the more environmental disclosure is supported.

From the OLS estimation, the R-squared of the environmental disclosure model is 17.4%. This means that, executive auditors and non-executive auditors are jointly accounted for 17.4% changes in environmental disclosure thereby the remaining percentage is accounted for by other variables not included in the model. The model is said to be moderate since the value of R-square is greater than 10%.

Despite the fact that one of the independent variable known as executive auditors is not significant in explaining the dependent variable, it could not be drop simply because of the probabilities of F-statistics of the study which is 0.043 this indicate that executive and non-executive auditors are jointly significance in explaining changes in environmental disclosure. This means that executive auditors and non-executive auditors are both impacted the environmental disclosure. The Durbin Watson value of the model depicts that the model is auto and serial correlation free thus meeting the assumption of OLS. This is because; the Durbin-Watson value is 1.96 which fall between 1 and 3 using rule of thumb [19].

5. Conclusion

The study focused on the establishment of a relationship between each of executive auditors and non-executive auditors on audit committee and environmental disclosure base on the evidence derived from listed environmentally sensitive industries in Nigerian at end of the year 2014. After the estimation using OLS multiple regression analysis, the found that while executive auditors do not have significant impact on environmental disclosure however, non-executive auditors on audit committee shows a positive and significant influence on environmental disclosure. Consequently, both executive and non-executive auditors have positive impact on environmental disclosure in Nigeria as seen and supported by the probability of F-Statistics. This is supported by hypothesis 1 and 2 where it was proposed that the more the executive auditors and non-executive auditors on audit committee the more the environmental disclosure. This could be seen as the explanatory variables, executive auditors and non-executive auditors on board are collectively significant in explaining changes in environmental disclosure of the listed environmentally sensitive industries in Nigerian. While executive auditors are individually not significant however non-executive auditors is significant on the said relationships found. Furthermore, the positive signs against all the explanatory variables indicate the increase in environmental disclosure this is seen in the parameters β_{1-2} which is all positive in the model. Therefore, the study concludes that executive auditors and non-executive auditors on audit committee among Nigerian listed environmentally sensitive industries jointly improve environmental disclosure significantly.

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