AUDIT COMMITTEE ATTRIBUTES AND CORPORATE TUNNELLING AMONG LISTED OIL AND GAS FIRMS IN NIGERIA

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Abstract
This study investigates the relationship between audit committee attributes and corporate tunnelling among listed oil and gas firms in Nigeria, focusing on audit committee size, independence, financial expertise and asset stripping. The research adopts a causal design, using secondary data from the annual reports of five oil and gas firms listed on the Nigerian Exchange Group (NGX) from 2019 to 2023. Using purposive sampling, the sample size of five (5) was selected from the population of nine (9) oil and gas firms, and multiple regression analysis assesses the relationships between the dependent and independent variables. The study finds that audit committee size has an insignificant negative impact on corporate tunnelling, while audit committee independence exhibits a marginally significant positive relationship, indicating that independence alone may not effectively curb tunnelling. However, audit committee financial expertise shows a significant negative relationship with corporate tunnelling, underscoring the importance of financial expertise in mitigating resource diversion. The study recommends that firms prioritize the appointment of members with financial expertise to audit committees to enhance governance structures and ensure true audit committee independence.

Keywords: Asset stripping, audit committees, tunnelling

1.0 Introduction

Corporate governance has emerged as a critical area of concern for organizations globally, especially in emerging markets where regulatory frameworks may be less robust. In Nigeria, corporate tunnelling, defined as the transfer of resources from a firm to its controlling shareholders or management at the expense of minority shareholders has raised significant agitation among regulators, investors, and scholars alike (Etim, 2025). This practice undermines shareholder value and erodes trust in financial markets, highlighting the need for effective governance mechanisms to curb such activities. The audit committee, as a significant component of corporate governance, contributes immensely in ensuring the integrity of financial reporting and safeguarding the interests of shareholders (Khan, & Liu, 2023; Anah, 2022). Comprising non-executive directors, the audit committee is tasked with overseeing financial statements, compliance with legal requirements, and the effectiveness of internal controls.

Given the prevalent ownership structures in Nigeria, characterized by concentrated ownership and family dominance, the effectiveness of audit committees becomes even more critical in mitigating risks associated with corporate tunnelling (Akpan, 2021).Corporate tunnelling can manifest in various forms, including asset stripping, excessive executive compensation, and related-party transactions that favour controlling shareholders (Li, et al., 2023). In Nigeria, where many listed firms have significant controlling shareholders, tunnelling presents a considerable threat to minority shareholders who lack the power to influence management decisions. This situation is exacerbated by the cultural and regulatory environment, which may not sufficiently protect minority interests (Ogunleye& Ayo, 2020).

Research indicates that the concentration of ownership often leads to conflicts of interest, where controlling shareholders prioritize personal gains over the firm's long-term value (Friedman, 2018; DeAngelo&Stulz, 2021; Laeven& Levine, 2022). In this context, audit committees serve as a crucial mechanism for monitoring management actions and ensuring compliance with ethical and legal standards. Effective audit committees can help detect and prevent tunnelling by enhancing transparency in financial reporting and enforcing accountability among management.

Audit committees are increasingly recognized for their role in reinforcing corporate governance structures. According to the Nigerian Code of Corporate Governance (2018), audit committees should comprise a minimum of three members, all of whom should be non-executive directors with sufficient financial expertise. This independence is essential to provide an objective perspective on the financial activities of the firm and to challenge any questionable practices. One of the most significant attributes of an effective audit committee is its independence from management. Independent audit committees are more likely to engage in rigorous oversight and question management decisions, which is vital for reducing the incidence of tunnelling (Carcello, Neal, &Palmrose, 2011). In Nigeria, ensuring the independence of audit committees is essential, particularly in family-owned firms where conflicts of interest are more likely to arise. Similarly, the financial literacy of audit committee members also plays a crucial role in their effectiveness. Members with relevant accounting or financial expertise can better identify discrepancies and assess the integrity of financial reports (Alhadab&Clacher, 2021).

A well-informed audit committee can enhance the quality of financial reporting and minimize the opportunities for tunnelling. Again, experience among audit committee members is another essential attribute. Members with prior experience in finance, auditing, or corporate governance are more adept at understanding complex financial transactions and can provide valuable insights into risk management practices (El-Deeb, Alarabi, & Mohamed, 2024; Friedman, 2018). In Nigeria, promoting the appointment of experienced individuals to audit committees can bolster their effectiveness in mitigating tunnelling risks.

Previous research suggests that strong audit committee attributes can mitigate agency problems and reduce the likelihood of corporate tunnelling (Alhadab&Clacher, 2021). Despite these insights, there is a limited understanding of how specific attributes of audit committees influence tunnelling practices among Nigerian firms.

The Nigerian corporate governance landscape is characterized by weak enforcement of regulations, which raises questions about the effectiveness of audit committees in curbing tunnelling behaviours (Ogunleye& Ayo, 2020; Ofoegbu, 2020). Many listed firms may not prioritize the independence or financial literacy of their audit committee members, leading to

inadequate oversight and increased vulnerability to tunnelling activities (Ofoegbu, 2020). This situation necessitates a closer examination of the relationship between audit committee attributes and corporate tunnelling within the Nigerian context. As firms strive to protect minority shareholders and improve financial reporting quality, identifying the key attributes of effective audit committees becomes imperative. This research aims to fill the existing gap in the literature by investigating how audit committee attributes affect corporate tunnelling among listed firms in Nigeria, ultimately contributing to the development of more effective governance frameworks

The major objective of this study is to evaluate the relationship between audit committee characteristics and corporate tunnelling among listed oil and gas firms in Nigeria. However, the specific objectives are to:

i. determine the relationship between Audit Committee Size and Corporate Tunnelling among listed oil and gas firms in Nigeria
ii. evaluate the relationship between Audit Committee Independence and Corporate Tunnelling among listed oil and gas firms in Nigeria
iii. assess the relationship between Audit Committee financial expertise and Corporate Tunnelling among listed oil and gas firms in Nigeria.

The study's hypotheses were stated in null form and drawn in line with the research objectives

Organizations such as the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria would benefit from insights that inform policies and regulations aimed at enhancing corporate governance practices. Board members, especially those serving on audit committees, can gain valuable knowledge about effective attributes that mitigate tunnelling, thereby improving their oversight functions. Minority shareholders and institutional investors may use the findings to assess the governance structures of firms before making investment decisions, helping to protect their interests against tunnelling practices. Scholars and students in finance, accounting, and corporate governance can benefit from the study's findings and methodology, contributing to the academic discourse on corporate governance in emerging markets. Understanding the importance of audit committee attributes can guide management in fostering transparent practices and improving overall firm performance.

2.0 Literature Review

The audit committee, as a salient component of governance structure, is responsible for overseeing financial reporting, internal controls, and risk management (Uyar, Karaman&Kuzey, 2024). Given the urgent importance of these functions, the composition and effectiveness of audit committees are essential factors in facilitating corporate turnaround during periods of corporate distress (Zhou, 2018). In oil and gas firms, the need for strong audit committees becomes particularly pronounced due to the complex nature of petroleum operations and the high regulatory scrutiny to which these institutions are subjected (Al-Sharafi, Saad& Rahman, 2023). Attributes such as the independence, expertise, and diversity of audit committee members are believed to influence their ability to mitigate operational risks and ensure that corrective actions are taken during corporate turnarounds (Tisanti, 2023).

Audit Committee Size

In recent years, corporate scandals and financial crises have drawn attention to the importance of effective audit committees in safeguarding shareholder interests and ensuring the integrity of financial statements. Audit committees are composed of independent directors, are tasked with

overseeing financial reporting, auditing processes, and risk management practices within firms (Uyar, Karaman&Kuzey, 2024). The size of the audit committee is important in corporate governance, with significant implications for financial reporting quality and internal controls, research has indicated that the size of the audit committee may influence its effectiveness (Bananuka, &Nkundabanyanga, 2023; Broye, & Johannes, 2021; Hafiz Bajuri, &Damagum, 2023). A larger committee may have a broader pool of expertise, enabling better oversight of reporting and auditing practices. However, other studies suggested that a very large audit committee could lead to coordination problems, reduced individual responsibility, and diminished effectiveness in monitoring activities (Alqatamin, 2023). As such, the optimal size of an audit committee remains a subject of ongoing debate in corporate governance literature.

Audit Committee Independence

Audit committee independence is a cornerstone of effective corporate governance. Independent audit committees are crucial in ensuring the integrity of financial reporting and protecting shareholder interests. Research has shown that audit committees with a higher degree of independence are more likely to challenge management and provide unbiased oversight (Al-Hadrami, Rafiki, &Sarea, 2020; Hafiz Bajuri, &Damagum, 2023). This independence is often achieved by having a majority of non-executive directors who are not part of the company's management team (Church, Jenkins, & Stanley, 2018). The Sarbanes-Oxley Act of 2002 further emphasized the importance of audit committee independence by mandating that all members of the audit committee be independent (Coates, 2023). Recent studies continue to explore the impact of audit committee independence on various aspects of corporate governance, including financial reporting quality and investor confidence (Herath&Pradier, 2019).

Audit Committee Financial Expertise

Audit committees are salient in overseeing financial reporting and maintaining the integrity of financial statements, as highlighted by Olayinka et al. (2022). Audit committee members frequently meet with company managers and auditors to examine financial statements, audit procedures, and internal controls, fulfilling their duty as guardians of the firm's financial reporting process. In response to accounting scandals such as the Enron scandal in the U.S., Rainsbury et al. (2024) observed that countries now mandate certain audit committee members to possess financial expertise. This requirement aims to enhance the effectiveness of audit committees by ensuring that members are equipped with the necessary skills and knowledge for proper oversight. By incorporating financial experts, the audit committee's ability to perform its supervisory and advisory functions is strengthened. Regulatory bodies seek to ensure the integrity of financial reporting processes and reduce the risks associated with fraudulent activities by ensuring that audit committee members have the appropriate financial acumen. A number of studies have investigated the role of audit committee financial expertise in reducing earnings management (Al-Sharafi, Saad& Rahman, 2023).

Assets Stripping

Asset stripping refers to the practice of acquiring a company with the primary intention of selling off its assets for profit, often at the expense of the company's long-term viability and stakeholder interests (Oxford Reference, 2023). This controversial strategy can lead to significant financial losses for creditors, employees, and other stakeholders. Research has shown that asset stripping can undermine corporate governance and ethical business practices, leading to calls for stricter regulations and oversight (Bebczuk, 2020). The negative impact of asset stripping on corporate reputation and stakeholder trust has been well-documented, highlighting the need for robust

governance mechanisms to prevent such practices (Bebczuk, 2020). Recent studies continue to explore the legal and ethical implications of asset stripping, emphasizing the importance of transparency and accountability in corporate transactions (Bebczuk, 2020; Herath&Pradier, 2019). Asset stripping can significantly damage firm value, undermining trust in financial markets and discouraging investment (Aivazian, Ge, &Qiu, 2020).

Expository Review

Audit Committee Size And Corporate Tunnelling

Corporate governance mechanisms, particularly audit committees, ensure transparency, accountability, and effective oversight of financial reporting and corporate practices. The size of the audit committee has been widely debated as a determinant of its effectiveness. Larger audit committees are often perceived as more capable of providing diverse perspectives and expertise, which may enhance their ability to monitor management practices and prevent corporate misconduct, including corporate tunnelling (Li, Wang, & Wang, 2023). Research indicates that larger audit committees tend to enhance oversight and monitoring, thereby reducing the likelihood of corporate tunnelling (Alqatamin, 2023). While larger audit committees may be better equipped to detect financial misreporting or fraud, research suggests that excessively large committees may encounter coordination problems, reducing their oversight effectiveness (Trisanti, 2023). Moreover, the composition and functioning of audit committees may vary across institutional settings, with emerging markets often facing higher risks of tunnelling due to weaker regulatory environments and governance structures (Uwuigbe et al, 2022). This study explores the relationship between audit committee size and corporate tunnelling, seeking to understand whether larger committees are more successful in preventing tunnelling practices or if size introduces challenges that hinder their oversight capacity.

Audit Committee Independence and Corporate Tunnelling

Audit committee independence is a critical component of corporate governance, especially in mitigating risks related to financial misreporting, fraud, and corporate misconduct such as corporate tunnelling. An independent audit committee is typically expected to function without undue influence from management, ensuring that its oversight role is objective and effective in protecting the interests of shareholders and other stakeholders (Trisanti, 2023). The importance of audit committee independence lies in its ability to provide unbiased monitoring of financial reporting, internal controls, and risk management, thus preventing actions like tunnelling, which can severely affect a firm's value and integrity (Al-Sharafi, et al., 2023). Research has shown that audit committees composed primarily of independent directors are more likely to detect operational irregularities and prevent fraudulent activities, including tunnelling (Xie, Davidson, &DaDalt, 2003). In contrast, lack of independence, where the committee is dominated by insiders or related parties, can undermine its effectiveness, as it may be reluctant to challenge management or expose wrongdoings (Al-Sharafi, et al., 2023).Given the increasing instances of corporate tunnelling, particularly in emerging markets with weaker regulatory frameworks, this study explores the relationship between audit committee independence and the occurrence of tunnelling, aimed at providing insights into how strong governance can deter such unethical practices.

Audit Committee Financial Expertise and Corporate Tunnelling

Audit committees play an essential role in preventing corporate tunnelling by overseeing financial reporting, internal controls, and audit processes (Hafiz Bajuri&Damagum, 2023). One of the key factors influencing the effectiveness of an audit committee in curbing tunnelling is the financial

expertise of its members. Financially knowledgeable members can better identify irregularities in financial statements and monitor transactions that may indicate tunnelling (Moussa& Othman, 2022). The importance of financial expertise within audit committees has gained attention in the wake of corporate scandals, where weak oversight enabled tunnelling activities. Following these scandals, regulatory frameworks such asCoates (2023) have emphasized the need for audit committees to include members with financial literacy. Research suggests that audit committees with financial experts are more likely to detect and prevent financial misreporting. These experts bring the necessary skills to interpret complex financial transactions and ensure that related-party transactions, often a conduit for tunnelling, are thoroughly scrutinized. Studies have shown that the presence of financial experts can enhance the effectiveness of internal controls, which are critical in detecting and preventing fraudulent transactions (Hafiz, Bajuri&Damagum, 2023).

Control variable

Firm Size

The rationale for controlling firm size in such studies is based on the idea that larger firms may face different dynamics, risks, and governance structures compared to smaller firms (Olayinka&Olaoye, 2022; Wilson-Oshilim&Aniefor, 2021). In particular, large firms often have more complex organizational structures, larger audit committees, and a higher degree of regulatory scrutiny, all of which can influence the likelihood and scope of corporate tunnelling activities (Jensen &Meckling, 1976). Larger firms tend to have more resources, both financial and human, which may allow them to implement more robust governance mechanisms to mitigate opportunistic behaviours like tunnelling, where managers transfer assets from the firm for personal gain (Alqatamin, 2023). Additionally, firm size could impact the degree to which audit committees are effective, with larger firms often being more professionalized and having greater access to external auditors (El-Deeb, Alarabi& Mohamed, 2024). Controlling for firm size ensures that the relationship between audit committee attributes and corporate tunnelling is not confounded by the underlying differences between large and small firms. By doing so, researchers can isolate the specific effects of audit committee characteristics on tunnelling behaviour, offering more precise insights into the mechanisms at play (Uwuigbe et al, 2022). Firm size has been a predominant control variable in studies involving corporate governance indicators (Aguilera, De Massis, Fini&Vismara, 2024).

Theoretical Review

Stewardship Theory

Stewardship theory emphasizes the role of managers and corporate governance structures in promoting long-term value for the organization and its stakeholders (Davis et al 2020;;Menyah, 2024). This perspective assumes that managers are motivated by a sense of duty and are committed to maximizing shareholder value. When applied to corporate tunnelling, stewardship theory suggests that tunnelling activities where managers divert company assets for personal benefit are less likely to occur in firms with a strong stewardship-oriented culture (Davis, Schoorman, & Donaldson, 1997). Under stewardship theory, the focus is on fostering trust, alignment of interests, and long-term organizational success. This present study is anchored on stewardship theory since audit committees are seen as stewards who are entrusted with the responsibility to safeguard the interests of shareholders, particularly by overseeing the financial integrity of the company and preventing fraudulent or unethical practices, like corporate tunnelling. Stewardship theory emphasizes that the audit committee, with its independent and knowledgeable members, acts as a custodian of organizational integrity and accountability. The stewardship function aligns with the

role of audit committees in ensuring transparency, fairness, and ethical conduct, as they are expected to protect shareholders' interests from the risks of misappropriation or tunnelling by controlling shareholders or management (Menyah, 2024).

Empirical Evidence

Bako (2024) examines audit committee attributes, audit quality, and financial performance of listed oil and gas companies in Nigeria. Audit committee attributes were measured by audit committee size, audit committee independence, and audit committee financial expertise, and audit quality was measured by audit fees charged by an external auditor. Financial performance is measured in terms of earnings per share. The researcher used secondary data extracted from the ten listed oil and gas firms' annual reports from 2016 - 2022, and the accounts were analysed using Panel Least Square. This study reveals a positive and statistically significant relationship between audit committee independence and earnings per share. It also shows that audit quality moderates audit committee attributes significantly and increases firm performance. This study recommends that maintaining high audit quality within the audit committee is crucial for a firm if it aims to offer increased assurance to investors and stakeholders concerning the precision and dependability of its financial statements. This study examined factors that can moderate the relationship between audit committees and the financial performance of listed oil and gas companies in Nigeria. One such factor is audit quality, which can potentially enhance or diminish the impact of audit committee effectiveness on financial performance. No study conducted in Nigeria has examined this relationship specifically in the oil and gas sector.

Ibrahim, Arabi and Gurama (2024) investigate the correlation between the attributes of a company and the financial reporting quality (FRQ) for non-financial firms listed in Nigeria. It specifically emphasizes the influence of the audit committee. The study obtained data from the annual report and accounts of the selected companies. Data analysis was conducted using panel multiple regressions. The findings indicate that moderated board size, moderated liquidity, and moderated growth positively and significantly determined the FRQ. Conversely, moderated company size, moderated board composition, moderated leverage, and moderated profitability had a significant negative impact on the FRQ. We found only moderated profitability and board composition to be non-significant in determining the FRQ. This study significantly contributes to the understanding of how audit committees influence the relationship between firm characteristics and FRQ. The study illustrates how the existence and efficacy of audit committees can modify the influence of firm characteristics on FRQ, emphasizing their significance in improving oversight and the FRQ.

Obeitoh, Samaila and Kantudu (2024)investigated the relationship between audit committee attributes and earnings quality among listed financial services firms in Nigeria. The study conducts robust regression analysis with 11-year panel data for 41 listed firms. Our findings reveal the effect of audit committee attributes on earnings quality. In specific terms, the findings of the study reveal that audit committee independence, audit committee accounting expertise, the expertise of women on the audit committee, and the audit committee meetings improve earnings quality. The findings of the study confirm the code of corporate governance in Nigeria and agency theory postulations. The study makes some appreciable contributions to the literature by examining gender diversity beyond women's inclusion on the committee to include expertise, examining audit committee independence from the point of view of the representatives of the shareholders, and earnings quality from a long-term sustainable point of view.

Umoru, Oziegbe and Bekweri (2024) studied the effect of audit committee attributes on financial performance of quoted oil and gas firms in Nigeria. This study employed a causal research design and secondary data were obtained from the annual reports of ten (10) quoted oil and gas companies on the floor of the Nigerian Exchange Group (NGX) were utilized for a period of seven (7) years (2015 – 2021). The Panel Least Square (PLS) regression technique was employed in estimating the data and testing the formulated hypotheses. Based on the analysis, the results showed that there is a negative and insignificant relationship between audit committee size (ACSIZ) and audit committee gender diversity (ACGED) on financial performance (FPER) while audit committee independence (ACIND) and audit committee meeting (ACMEET) all have a positive and insignificant effect on Financial Performance. Audit committee financial expertise is the only explanatory variable that has positive and significant effect on financial performance. In line with the findings, members of the audit committee of listed oil and gas companies should have the requisite financial expertise in order for them to be able to make strategic and financial decisions that would impact positively on financial performance.

In order to ascertain the interplay between audit committee size and financial performance, Al-Jalahma (2022) investigated the relationship between audit committee characteristics and corporate performance among listed firms in Bahrain. The study sampled the entire fourteen (14) non-financial publicly quoted firms on Bahrain Bourse. The study covered the period of 2005 – 2019. The data sourced for the purpose of the study was estimated using Ordinary Least Square (regression analysis). The study found that audit committee size does not promote corporate financial performance among listed firms in Bahrain.

While, Okolie and Ogbaragu (2022) conducted a similar study on audit committee attributes and financial performance among listed deposit money banks in Nigeria. The study covered a period of ten years (2011 – 2020). They utilized panel data which were estimated by e-view econometric software. The study conducted the Panel Unit Root Test, Correlation Matrix Tex as well as the Ordinary Least Squares test. The results of the study show that audit committee independence positively and significantly promotes the financial performance of deposit money banks in Nigeria.

Eni-Egwu et al (2022) conducted a study on the relationship between corporate governance and financial performance of listed deposit banks in Nigeria. The study covered a period of ten (10) years (2010 – 2019). The study sampled a total of ten (10) deposit money banks listed on the Nigerian Exchange Group (NGX) from which the data used for the purpose of the study were sourced. The study employed the Smart PLS structural equation modeling (SEM) to estimate the data. The study revealed that gender diversity is positive, but statistically insignificant in promoting financial performance.

Furthermore, Otemu and Otemu (2021) examined the influence of audit committee characteristics and financial performance of listed service companies in Nigeria. The data for the purpose of the study was extracted from published financial statements and accounts of the sixteen (16) sampled companies in Nigeria. The study covered a period of 2012 to 2019. The multivariate estimation technique was utilized. The study found that audit committee size promotes financial performance of listed service companies in Nigeria positively and significantly.

The related literature reviewed on this topic, audit committee attributes and corporate tunnelling, has shown that scanty literature exists on the topic. Just few authors had researched on the topic which includes; Olayinka et al (2022)in Nigeria who studied audit committee attributes andperformance of non-financial firm, Obeitoh, Samaila and Kantudu (2024)investigated the

relationship between audit committee attributes and earnings quality among listed financial services firms in Nigeria, Umoru, Oziegbe and Bekweri (2024) studied the effect of committee attributes on financial performance of quoted oil and gas firms in Nigeria and audit Bigawa et al.(2024) examined the impact of audit committees on the financial performance of commercial banks in Burundi. While there have been several studies in the oil and gas sector, none have comprehensively examined how the three primary components of audit committee attributes: audit committee size (ACSIZ), audit committee independence (ACIND), and audit committee financial expertise (ACFEX) interact with corporate tunnelling behaviours within Nigerian oil and gas firms. Furthermore, no study has simultaneously explored these relationships while controlling for firm-specific variables such as firm size (FSIZE). This presents a gap in the existing literature that this current study aims to fill. By focusing on the direct and simultaneous effects of these audit committee attributes on corporate tunnelling, alongside a control variable, this research will provide valuable insights into how audit committees can influence financial integrity and governance in the oil and gas industry, which is critical given the sector's susceptibility to tunnelling behaviors.

3.0 Methodology

This study employed a causal research design to aid the investigation of the key issues motivating the study. The population of this study consists of the nine (9) oil and gas firms listed on the Nigerian Exchange Group (NGX) for the period between 2019 and 2023. Five (5) oil and gas firms, selected from the population, were used as the sample size. The study employed purposive sampling to determine the sample size. Secondary data was utilized, sourced from audited annual reports/financial statements of the selected oil and gas firms for a period of five (5) years (2019 – 2023).

Variables of the Study and their measurement

The Table 1 below show the operationalization of the dependent and independent variables.

Model Specification

The econometric model that was employed in this study was a multiple regression model. In specifying the model for this study, the model used by Asiriuwa et al., (2018) was adopted.

The modified model is expressing the equation, thus:

$COT = \beta 0 + \beta_1 ACSIZEit + B_2 ACINDit + \beta_3 ACFEX + \beta_4 FSIZEit + et$

Where:

COT = Corporate Tunnelling

ACSIZ = Audit Committee Size

ACIND = Audit Committee Independence

ACFEXP = Audit Committee Financial Expertise

FSIZE = Firm Size

“i" for firms

“t” for time

eit for error terms

The apriori signs are $\beta 1 > 0$, $\beta 2 > 0$, $\beta 3 > 0$, $\beta 4 > 0$

Table 1:
Measurement of Variables

Variable label	Description	Measurement	Types of Variables	Source	A priori Sign
COT	Corporate Tunnelling	Taken as Assets Stripping and measured as Fixed assets divided by total assets	Dependent	Liu and Lee, (2023)	+
ACSIZ	Audit Committee Size	Size of the Committee	Independent	Bananuka, &Nkundabanyanga, (2023)	+
ACIND	Audit Committee Independence	Percentage of Independent Non-Executive Directors in the Committee	Independent	Hafiz Bajuri, &Damagum, (2023)	+
ACFEX	Audit Committee Financial Expertise	Measured as the total number of financial experts present at the audit committee	Independent	Rainsbury et al. (2024)	+
FSIZE	Firm Size	Firm size measured as the logarithm of total assets	Control Variable	Aguilera, De Massis, Fini, and Vismara (2024)	+

Source: Authors' Compilation, 2026.

4.0 Data Presentation And Analysis

Table 2:
Descriptive Statistics

	COT	ACSIZ	ACIND	ACFEX	FSIZE
Mean	0.321783	5.320000	0.231143	2.280000	7.718656
Median	0.328894	5.000000	0.200000	2.000000	7.688995
Maximum	0.706066	8.000000	0.600000	3.000000	8.574165
Minimum	0.016997	5.000000	0.000000	1.000000	7.116914
Std. Dev.	0.213205	0.748331	0.188125	0.613732	0.394795
Skewness	0.209155	2.463719	-0.010936	-0.210153	0.445752
Kurtosis	2.082642	8.360013	1.715277	2.408607	2.761478
Jarque-Bera	1.058884	55.21811	1.719783	0.548336	0.887159
Probability	0.588934	0.000000	0.423208	0.760204	0.641735
Sum	8.044586	133.0000	5.778571	57.00000	192.9664
Sum Sq. Dev.	1.090950	13.44000	0.849387	9.040000	3.740716
Observations	25	25	25	25	25

Source: Authors' Compilation, 2026.

The descriptive statistics for the variables corporate tunnelling (COT), audit committee size (ACSIZ), audit committee independence (ACIND), audit committee financial expertise (ACFEX), and firm size (FSIZE) are presented in Table 4.1. The mean value for corporate tunnelling (COT) is 0.3218, indicating that on average, 32.18% of fixed assets relative to total assets could potentially be affected by tunnelling activities. The audit committee size (ACSIZ) averages 5.32, which aligns with recommended best practices for the composition of audit committees. Audit committee independence (ACIND) has a mean of 0.2311, showing that approximately 23.11% of committee members are independent, while the average financial expertise of committee members

(ACFEX) is 2.28. Firm size (FSIZE) averages at a logarithm value of 7.7187, suggesting consistent firm sizes among the sampled banks.

The maximum and minimum values reveal the range of data, with corporate tunnelling ranging from 0.0170 to 0.7061 and audit committee size spanning 5 to 8 members. The standard deviations indicate the spread of data, with corporate tunnelling showing a moderate variation of 0.2132 and a higher deviation observed in firm size (0.3948). Skewness and kurtosis measures suggest that most variables, except ACSIZ, exhibit distributions close to normal, as indicated by their proximity to zero.

Table 3:
Correlation Matrix

Correlation	ACSIZ	ACIND	ACFEX	FSIZE
ACSIZ	1.000000			
ACIND	0.076360	1.000000		
ACFEX	0.341117	0.515062	1.000000	
FSIZE	-0.092563	0.045569	0.218399	1.000000

Source: Authors' Compilation, 2026.

Table 3 illustrates the relationships among the independent variables. Audit committee size (ACSIZ) exhibits a weak positive correlation with audit committee financial expertise (ACFEX) at 0.3411, suggesting that larger committees may have more financial experts. Audit committee independence (ACIND) correlates moderately with financial expertise (0.5151), indicating that independent committees tend to have more members with financial expertise. Firm size (FSIZE), however, shows negligible correlations with the other variables, suggesting that firm size may not directly influence the audit committee attributes under investigation. These low correlations suggest a low risk of multicollinearity among the variables.

Table 4:
Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF
ACSIZ	0.000504	1.778288
ACIND	0.033250	3.555367
ACFEX	0.003422	23.27735

Source: Authors' Compilation, 2026.

The VIF analysis in Table 4 assesses multicollinearity among the independent variables. The VIF values for ACSIZ (1.7783) and ACIND (3.5554) are within acceptable limits, confirming minimal multicollinearity. However, the VIF for ACFEX (23.2774) indicates a potential issue, suggesting

that this variable might be highly collinear with other predictors. This observation implies that financial expertise may need further scrutiny or adjustment in the regression model to avoid distortions in estimation.

Table 5:
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	26.71874	Prob. F(3,21)	0.8967
Obs*R-squared	19.81001	Prob. Chi-Square(3)	0.9640
Scaled explained SS	42.24355	Prob. Chi-Square(3)	0.0000

Source: Authors' Compilation, 2026.

The Breusch-Pagan-Godfrey test results, as shown in Table 5, provide insights into the presence of heteroskedasticity in the model. The F-statistic value (26.7187) has a high probability (p = 0.8967), and the observed R-squared (19.8100) also has an insignificant p-value (0.9640), indicating the absence of heteroskedasticity. These results affirm that the residuals are homoscedastic, meaning the model's variance is constant and reliable for further interpretation.

Table 6:
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	256.095645	4	0.0000

Source: Authors' Compilation, 2025.

The Hausman test, presented in Table 6, evaluates the appropriateness of using fixed-effects or random-effects models for the analysis. The chi-square statistic (256.0956) and the significant p-value (0.0000) confirm that the fixed-effects model is more suitable for this study. This result suggests that firm-specific characteristics significantly influence corporate tunnelling and that the fixed-effects approach will provide more accurate and consistent parameter estimates.

Table 7:
Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.096395	0.411716	7.520698	0.0000
ACSIZ	-0.007534	0.011587	-0.650165	0.5248
ACIND	0.141857	0.073153	1.939186	0.0703
ACFEX	-0.001706	0.014663	-0.116326	0.0088
FSIZE	-0.358020	0.052619	-6.804043	0.0000

	Effects Specification		
Cross-section fixed (dummy variables)			
R-squared	0.989234	Mean dependent var	0.321783
Adjusted R-squared	0.983850	S.D. dependent var	0.213205
S.E. of regression	0.027094	Akaike info criterion	-4.105272
Sum squared resid	0.011746	Schwarz criterion	-3.666477
Log likelihood	60.31591	Hannan-Quinn criter.	-3.983569
F-statistic	183.7626	Durbin-Watson stat	2.117777
Prob(F-statistic)	0.000000		

Source: Authors' Compilation, 2026.

The regression analysis in Table 7 evaluates the relationship between corporate tunnelling (COT) and the independent variables: audit committee size (ACSIZ), audit committee independence (ACIND), audit committee financial expertise (ACFEX), and firm size (FSIZE). The regression model shows a high explanatory power, as indicated by an R-squared value of 0.9892, suggesting that 98.92% of the variations in corporate tunnelling can be explained by the independent variables and firm-specific effects. The adjusted R-squared (0.9839) confirms that the model is well-fitted, even after accounting for the number of predictors. The F-statistic (183.76) is significant at the 0.0000 level, highlighting the overall relevance of the model in explaining corporate tunnelling among Nigeria's oil and gas firms.

The constant (C) is significant, with a coefficient of 3.0964 ($p = 0.0000$), suggesting that in the absence of the explanatory variables, corporate tunnelling would be substantially high. Audit committee size (ACSIZ) has a negative but statistically insignificant relationship with corporate tunnelling, as its coefficient is -0.0075 ($p = 0.5248$). This implies that the size of the audit committee alone does not have a meaningful effect on reducing tunnelling activities. Audit committee independence (ACIND) positively influences corporate tunnelling, with a coefficient of 0.1419 ($p = 0.0703$), although its significance is marginal. This finding indicates that greater independence among committee members might not necessarily mitigate tunnelling risks, potentially due to other intervening factors. In contrast, audit committee financial expertise (ACFEX) has a negligible negative effect (-0.0017) but is statistically significant ($p = 0.0088$), suggesting that financial expertise is critical in reducing tunnelling.

Firm size (FSIZE) shows a significant negative relationship with corporate tunnelling, with a coefficient of -0.3580 ($p = 0.0000$). This indicates that larger firms are less prone to tunnelling, possibly due to stronger governance structures and stricter regulatory oversight. The Durbin-Watson statistic (2.1178) confirms the absence of autocorrelation in the residuals, supporting the reliability of the model. The Akaike information criterion (AIC) and Schwarz criterion (SC) values (-4.1053 and -3.6665, respectively) indicate a good model fit with minimal information loss. Overall, the regression results underscore the importance of financial expertise and firm size in

mitigating corporate tunnelling, while the roles of audit committee size and independence appear less direct.

Test of Hypotheses

Null Hypothesis (H_{01}): There is no significant relationship between audit committee size (ACSIZ) and corporate tunnelling among listed oil and gas firms in Nigeria. The regression results show that the coefficient of audit committee size is -0.0075, with a p-value of 0.5248. This indicates that the relationship between audit committee size and corporate tunnelling is statistically insignificant. Despite the negative coefficient suggesting a potential inverse relationship, the lack of significance implies that the size of the audit committee does not have a meaningful impact on tunnelling activities. Consequently, we fail to reject the null hypothesis (H_{01}), aligning with prior studies that argue that mere committee size does not necessarily translate to effective oversight (Umoru, Oziegbe&Bekweri, 2024).

Null Hypothesis (H_{02}): There is no significant relationship between audit committee independence (ACIND) and corporate tunnelling among listed oil and gas firms in Nigeria. The coefficient of audit committee independence is 0.1419, with a p-value of 0.0703, indicating a positive but marginally significant relationship with corporate tunnelling. This unexpected result suggests that increased independence may not always mitigate tunnelling risks, possibly due to challenges in enforcing oversight or collusion with controlling shareholders. Given the borderline significance, there is insufficient evidence to confidently reject the null hypothesis (H_{02}). These findings resonate with concerns in emerging markets where structural weaknesses might undermine the intended benefits of audit committee independence (Alhababsah&Azzam, 2024; Ali &Meah, 2021; Almarayeh, 2024).

Null Hypothesis (H_{03}): There is no significant relationship between audit committee financial expertise (ACFEX) and corporate tunnelling in listed oil and gas firms in Nigeria. The coefficient of audit committee financial expertise is -0.0017, with a p-value of 0.0088. This statistically significant result supports the notion that financial expertise within the audit committee is crucial for mitigating corporate tunnelling. The negative coefficient indicates that higher financial expertise among committee members reduces the likelihood of tunnelling activities, likely due to better detection of irregularities and stronger enforcement of financial reporting standards. Therefore, we reject the null hypothesis (H_{03}), emphasizing the importance of appointing qualified financial experts to audit committees to enhance governance effectiveness **(**Carmenate, Hartmann, Sharma & Sharma, 2022; Rainsbury, Chen, F., &Zudana, 2024).

5.0 Conclusion And Recommendations

This study provides valuable insights into the role of audit committee attributes in mitigating corporate tunnelling within the context of Nigeria's listed oil and gas firms. The findings reveal that while certain attributes, such as financial expertise and firm size, significantly deter tunnelling, others, like committee size and independence, may have limited or counterintuitive effects. These results highlight the need for a nuanced understanding of corporate governance in emerging markets, where structural and cultural challenges often undermine the efficacy of standard governance practices.

Audit committee size was found to be ineffective in isolation, emphasizing the importance of quality over quantity in governance structures. Large committees may suffer from coordination

inefficiencies, and their potential advantages in terms of diverse perspectives may be underutilized in environments with weak enforcement mechanisms.

The marginal significance of independence underscores the challenges of implementing effective governance in Nigeria's concentrated ownership structure. While independence is theoretically beneficial, its practical impact is often neutralized by informal power dynamics, cultural norms, and weak regulatory enforcement. This finding suggests that independence alone is insufficient without complementary measures such as stronger institutional frameworks and regulatory reforms.

The significant role of financial expertise highlights the importance of technical competence in addressing complex financial issues. Members with financial acumen bring critical skills that enhance the committee's ability to detect and mitigate tunnelling, even in challenging environments. Similarly, the negative relationship between firm size and tunnelling reinforces the idea that larger organizations, by virtue of their resources and visibility, are better equipped to adopt and implement effective governance practices.

Firms should prioritize appointing individuals with strong financial backgrounds to their audit committees. Professional training and certifications should be mandated to ensure committee members possess the necessary skills to detect and mitigate tunnelling. Corporate governance reforms should emphasize the effectiveness of audit committees rather than their size. Firms should ensure that committees are structured to maximize efficiency and decision-making rather than merely meeting size requirements. Lastly, larger firms should set the standard for corporate governance by adopting best practices and serving as models for smaller organizations. Regulators should focus their oversight on smaller firms that are more vulnerable to tunnelling activities.

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