Audit committee characteristics and financial performance of non-financial listed companies in Nigeria

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Abstract
Despite several studies having previously explored the nexus of Audit Committee characteristics and financial performance of non-financial listed companies in Nigeria, certain areas continue to warrant further attention. These include the impact of Audit committee independence, Audit committee size, Audit committee meetings and the Audit committee financial expertise. The study examines and evaluates these Audit Committee Characteristics and Financial Performance of non-financial listed companies in Nigeria from 2018 to 2021. The population of the study is made up of Seventy Six (76) non-financial listed firms where annual reports of the respective firms as source of secondary data were examined. The data collected were analysed, using Descriptive statistics, Correlation analysis and multiple regression. The study found that ACIND and financial performance of non-financial listed is found to be positively and significantly related and also found that there is a significant relationship between ACFEXP and financial performance of non-financial listed companies. The study recommends that companies should prioritise ACIND to enhance objectivity in financial oversight, companies should strive for an optimal ACSIZE that balances effective oversight without becoming unwieldy, companies should increase the frequency of ACMEET to ensure timely risk identification and companies should actively seek individuals with diverse financial expertise to populate AC.

Keywords: Audit Committee, Audit Committee Meetings, Audit Committee Size, Corporate Governance, Firm Performance

1. Introduction

The relationship between audit committee characteristics and the financial performance of non-financial listed companies in Nigeria is a crucial area of study. Understanding how factors such as committee composition, independence, expertise, and diligence impact financial outcomes can provide valuable insights for both corporate governance and investor decision-making in the Nigerian market.

The term performance refers to the act of performing, execution, accomplishment, fulfilment of a given task measured against preset standard of accuracy, completeness, cost, speed. Dalayeen (2017) explains that performance indicates how the management of an organisation has been accomplishing the goals, which they had set of the enterprise. Performance is a measure of the degree to which an organisation fulfils its purpose and the purpose is to achieve its objectives. The financial performance of an organisation is influenced by several factors like capital structure, cost, revenue and the consequential profit margin (Dalayeen, 2017).

Financial performance is a comprehensive measure of a company's profitability, efficiency, liquidity, and solvency. It includes metrics such as return on assets (ROA), return on equity (ROE), earnings per share (EPS), and operating margins. Improvements in financial performance indicate better management of resources and increased value creation for shareholders. The effectiveness of audit committees is often viewed as a key component of corporate governance. Strong corporate governance practices, including a well-functioning audit committee, are associated with better financial performance as they reduce agency costs, mitigate risks, and enhance transparency and accountability.

Dalayeen (2017) also explains that financial performance is concerned with the evaluation and interpretation of a firm's financial positions and operations and involves a comparison and interpretation of accounting data. The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm just like a doctor examines his patient by recording his body temperature or blood pressure etc. Nevertheless, financial analyst analyses the financial statements before commenting upon the financial health or weakness of an enterprise.

Audit Committee (AC) is as comprising of Non-Executive Directors (NEDs). Audit Committee is seen as a mechanism of Corporate Governance. Audit Committee have the capability to ensure that processed financial reports are credible by monitoring and facilitating communication between the management and auditors. There were a number of studies such as that of Abdurrouf (2011), Kang (2011) & Swamy (2012) which most focussed on the mere presence of Audit Committee and examined the effect of Audit Committee on the financial performance. Interactions between Internal Audit (IA) and Audit Committee (AC) are an important element of sound corporate governance. An effective AC can strengthen the position of the internal audit functions by acting as an independent forum for internal auditors to matters affecting management. At the same time internal audit can be of considerable assistance to the Audit Committee in its oversight of reporting and risk management and control. Internal Audit Function (IAF) has been acknowledged as one of the cornerstones in an entity's corporate governance (Abisola & Femi, 2010). Thus, the main objective of this study is to examine the relationship between the audit committee characteristics (independence, size, meetings and financial expertise) and financial performance of non-financial listed companies in Nigeria.

2. Literature Review

Conceptual Review

The concept of firm financial performance implies measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, and net profit after tax etc. Performance differences in firms are often the subject of academic research and government analysis (Vanila & Gherghina 2012). The underlying motivation for this kind of research is the quest for those factors that may provide firms with a competitive advantage and hence drive firm profitability.

According to Ogbu et al., (2017), firm financial performance refers to the profitability of the firm which is the benchmark upon which economic, managerial efficiency and social objectives are appraised. Profitability is the concept of being able to make profits from all the business operations of an organisation. He further added that performance is the function of the ability of an organisation to gain and manage the resources in several different ways to develop competitive advantage. Ademiloye & Akinleye (2018) see firm performance as a subjective measure of how well a firm can use its assets from its primary mode of business to generate higher revenues.

Empirical Review

An empirical study Dabor & Dabor, (2013) provides evidence of negative impact of audit committee size on firm performance. The result of this study is consistent with Chaudhory et al., (2018) where 109 listed manufacturing companies during the year of 2013-2017 have been taken into consideration.

On the frequency of meetings by an audit committee, the same study, Dabor & Dabor, (2013), explains that there is positive role of audit committee meetings on firm performance and the finding is in agreement with Al-Matari et al., (2012); Bala, (2014) and Ahmad, (2018).

Most of studies that investigate the relationship between audit committee independence and firm performance, their results showed that the relationship is positive. Al-Matari et al., (2012); Aanu et al., (2014); Tinuola et al., (2012) found that audit committee independence positively impacts the firm performance as measured by Tobin's Q. Another study measured using ROA found that audit committee independence is positively associated with firm performance (Allegirini & Greco, 2011).

Another study, Abidin et al., (2014) and Al-Matari et al., (2012), where they found a positive relationship between audit committee independence and firm performance, which made to argue that the more independent audit committee members, do bring sufficient experience to monitor managers and that there is the potential for them to carry out their roles efficiently.

On the audit committee meetings, Sulaiman et al., (2018) revealed that the frequency of audit committee is significantly and positively related to ROA and ROE. This result indicates that the frequency of audit committee meetings has a significant positive impact on firm profitability as a result of the close monitoring of management by independent audit members. In contrary, a result of another study, Chaudhory et al., (2018) states that audit committee meeting has negative role on firm performance. Also, another study, Aanu et al., (2014) also shows a negative role on firm performance.

Also, a lot of these studies were carried either in Malaysia, Saudi Arabia, Indonesia, India or Jordan (Ahmad, 2018; Kamardin & Haron, 2017; Abdullah, 2015; Abdul & Qaisar, 2019). Only few studies were carried out in Nigeria and most of these studies were not able to incline their findings with firm performance.

Based on the above empirical review, the following hypotheses are postulated:

Ho1 There is no positive relationship between Audit Committee Independence and financial performance of non-financial listed companies.

Ho2 There is no positive relationship between Audit Committee Size and financial Performance of non-financial listed companies.

Ho3 There is no positive relationship between Frequencies of Audit Committee Meetings and financial performance of non-financial listed companies.

Ho4 There is no positive relationship between Audit Committees Financial Expertise and financial performance of non-financial listed companies.

Theoretical Framework

Agency Theory

The agency relationship is seen as a contractual link between the shareholders (the principals) that provide capital to the company and the management (agents) who runs the company. The principals engage the agent to perform some services on their behalf and would normally delegate some decision-making authority. However, as the number of shareholders and the complexity of operations grew, management, who had the expertise and essential knowledge to operate the company, increasingly gained effective control and put them in a position where they were prone to pursue their own interests.

The agency theory is concerned with problems that can occur in the cases when one-part (the principals) contracts with another part (the agent) to make decision on behalf of the principals. Agency problem can occur because agents can hide information and achieve action in favour of their own interest (Enron Corporation, 2001, WorldCom, 2002).

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Agency theory argues, for the purpose of maximising their utilities, agents (managers) may exploit their positions to engage in activities for their personal interests at the expense of the principal's interest. Abdul & Qaisar (2019) empirically explained that in an agency relationship where there is inability of the principal to directly observe the agent's action could lead to moral hazard, thus increasing agency cost.

According to Anisere-Hameed and Ajide (2015), agency theory addresses three problems that could transpire from the separation of ownership and management. Firstly, there is effort problem, which involves determining whether or not managers apply proper effort in managing corporations so as to maximise shareholders' wealth. Secondly, the use of assets problem, which concerns the insiders who control the assets of the corporation, they might abuse the use of these assets for purposes that are harmful to the interests of shareholders, such as, diverting corporate assets, claiming excessive salaries and manipulating transfer prices of assets with other entities they control. Thirdly, the differential risk preferences problem, which arises when the principal and managers have different views on risk taking. Managers may not act in the best interest of shareholders and may have different interests and risks preferences. Hence, in Tinuola et al., (2021), Anisere-Hameed and Ajide, (2015) recommended that corporate governance mechanisms are needed to reduce these agency conflicts and to align the interests of the agent with those of the principal.

3. Methodology

The study used ex-post facto research design This was also used in Ujunwa (2012); Tumbull (2017), Sulaiman et al. (2018) and Malik and Waheed (2019). Secondary data were used in this study were the annual reports of non-financial listed companies from 2018 to 2021. These annual reports would be used to collect data regarding the relationship between audit committee characteristics and firm financial performance of non-financial listed companies in Nigeria. Data analysis was made using SPSS version 18. In order to achieve the objectives of the study, descriptive statistics and Pearson correlation method was employed to determine the strength and direction of the variables that is to obtain and understanding of the relationship among all the variables in the study (Al-Matari et al; 2012).

Model Specification

The study used ROA as a model to examine the relationship between ACC and firm FP of non-financial listed companies

$$ROA = \alpha 0 + \beta 5it\ ACIND + \beta 6it\ ACSIZE + \beta 7it\ ACMEET + \beta 8it\ ACFEXP + \beta 9it\ FSIZE + \beta 10it\ DEBT + \varepsilon$$

4. Results and Discussion

Table 1: Descriptive statistics

Descriptivse Statistics	N	Minimum	Maximum	Mean	Std. Deviation
ACIND	304	0.6300	0.7200	0.3138	4.2142
ACSIZE	304	11.00	15.00	2.8553	1.68632
ACMEET	304	.1200	0.1300	1.4704	2.25132
ACFEXP	304	0.1300	0.1100	2.7796	1.81689
ROA	304	-.04300	0.1100	0.1138	0.2142
FSIZE	304	14.00	13.00	21.9539	3.62217
DEBT	304	16.00	11.00	1.8980	1.50668
Beta	304	1.00	3.00	1.9803	2.74907
Valid N (listwise)	304				

Source: *Researcher's Analysis (2021) using SPSS version 18*

Table 1 presents the descriptive analysis of the study. The descriptive result reveals that Return on Asset has minimum and maximum values of -0.04300 and 0.1100 respectively and the mean and standard deviation of 0.113 and 0.2142 respectively. This means that within the study period the performance is low since there is minimum value and relatively higher standard deviation. The table also shows the minimum and maximum values of firm size are 14.000 and 13.00 respectively and has a mean and standard deviation of 21.9539 and 3.62217 respectively which indicated a better performance since the standard deviation is relatively low. The descriptive result also reveals that ACIND has minimum and maximum values of 0.6300 and 0.7200 respectively and the mean and standard deviation of 0.3138 and 4.2142 respectively. This means that within the study period the performance is low since there is minimum value and relatively higher standard.

Table 2: Correlation Analysis

Correlation Correlations

		ACIND	ACSIZE	ACMEET	ACFEXP	ROA	FSIZE	DEBT	Beta
ACIND	Pearson Correlation	1	.090	.044	.340	.174	.739	.139	.741
	Sig. (2-tailed)		.116	.443	.100	.002	.200	.015	.000
	N	304	304	304	304	304	304	304	304
ACSIZE	Pearson Correlation	.090	1	.671	.496	.444	.380	.486	.349
	Sig. (2-tailed)	.116		.100	.200	.300	.100	.200	.300
	N	304	304	304	304	304	304	304	304
ACMEET	Pearson Correlation	.044	.671	1	.404	.255	.458	.265	.242
	Sig. (2-tailed)	.443	.100		.200	.100	.100	.200	.300
	N	304	304	304	304	304	304	304	304

ACFEXP	Pearson Correlation	.340	.496	.404	1	.361	.533	.467	.420
	Sig. (2-tailed)	.000	.000	.200		.000	.000	.000	.000
	N	304	304	304	304	304	304	304	304
ROA	Pearson Correlation	.174	.444	.255	.361	1	.296	.703	.256
	Sig. (2-tailed)	.002	.300	.100	.200		.300	.100	.200
	N	304	304	304	304	304	304	304	304
FSIZE	Pearson Correlation	.739	.380	.458	.533	.296	1	.311	.730
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000	.000
	N	304	304	304	304	304	304	304	304
DEBT	Pearson Correlation	.139	.486	.265	.467	.703	.311	1	.267
	Sig. (2-tailed)	.015	.000	.000	.000	.000	.000		.000
	N	304	304	304	304	304	304	304	304
Beta	Pearson Correlation	.741	.349	.242	.420	.256	.730	.267	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	
	N	304	304	304	304	304	304	304	304

Source: *Researcher's Analysis (2021) using SPSS version 18*

The results of correlation analysis of the research model used, dependent, independent and control variables are displayed in the Table 2 above ACMEET shows a positive but insignificant relationship with the firm performance. ACSIZE (0.900), (0.671), (0.496), (0.444) (shows a significant correlation with firm performance and firm size. ACMEET shows that the relationship with dependent variable is weak. ACFEXP (0.340) with BSIZE shows a strong relationship with firm performance. ROA (0.296), (0.703), (0.256) is positively and significantly correlated with ACIND, ACFEXP and FSIZE and also FSIZE (0.739) is significantly correlated with ROA proxy of firm performance.

Table 3: Model Summary: Multiple Regression (Testing of Hypotheses)

Model Summary					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	R Square Change
1	.718[a]	.515	.504	2.45887	.515

a. Predictors: (Constant), Beta, ACMEET, DEBT, ACFEXP, ACSIZE, ACIND, FSIZE

Source: *Researcher's Analysis (2021) using SPSS version 18*

Table 4: ANOVA

Model		Sum of Squares	Df	Mean Square	F
1	Regression	1900.844	7	271.549	44.914
	Residual	1789.626	296	6.046	
	Total	3690.470	303		

a. Dependent Variable: ROA
b. Predictors: (Constant), Beta, ACMEET, DEBT, ACFEXP, ACSIZE, ACIND, FSIZE
Source: *Researcher's Analysis (2021) using SPSS version 18*

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.064	.319		12.736	.000
	ACIND	.177	.133	.103	5.330	.001
	ACSIZE	.116	.132	.153	3.386	.051
	ACMEET	.124	.099	-.002	2..039	.007
	ACFEXP	.172	.103	-.037	1.698	.021
	FSIZE	.012	.111	.009	.105	.916
	DEBT	1.481	.114	.639	12.967	.000
	Beta	-.043	.088	-.034	-.494	.621

a. Dependent Variable: ROA
Source: *Researcher's Analysis (2021) using SPSS version 18*

Table 3 above illustrates the relationship of independent variables with the dependent variable of ROA. The correlation coefficient (r) of 0.718 shows a positive and strong relationship between the independent variables and the dependent variable (ROA). The R squared (R^2) value of 0.515 shows that the predictor variable account for 49% of the variations in ROA of the companies studied. From Table 5 above t-values are 5.330, 3.386, 2.039, 1.698 and p-values are 0.001<0.05, 0.051<0.05, 0.07<0.05 and 0.21<0.05.

Table 5 above shows the result of Audit committee characteristics and the companies' financial performance as measured by ROA. H1 predicts a significant relationship between audit committee independence and company financial performance, the coefficient is positive and significant at $\beta = 0.177$, $p< .001$. The result implies that audit committee independence positively enhanced company financial performance and the hypothesis is supported. Hypothesis 2 shows $\beta = 0.118$, $p< .051$, Hypothesis 3 shows $\beta = 0.124$, $p< .007$, Hypothesis 4 shows $\beta = 0.171$, $p< .021$. The results indicates that there is a significant relationship between the all the independent variables and the dependent variable of firm financial performance as measured using ROA.

Findings

The aim of this study is to examine the relationship between Audit committee characteristics and the performance of non-financial listed companies in Nigeria.

The following are the findings of the study:

1. The Audit Committee Independence (ACIND) and firm financial performance of non-financial listed companies in Nigeria are by this study found to be positively and significantly related.
2. There is insignificant relationship between Audit Committee Size (ACSIZE) and financial performance of non-financial listed companies in Nigeria.
3. The study found that the relationship between the frequency of Audit Committee Meetings (ACMEET) and financial performance of non-financial listed companies in Nigeria is very weak.
4. The study found that there is significant relationship between Audit Committee Financial Expertise (ACFEXP) and financial performance of non-financial listed companies in Nigeria.

5. Conclusion and Recommendations

Independence of Audit Committee leads to effective monitoring and consequently improves firm performance. Where a large Audit Committee size exists, possible challenges emanating from reporting risks may have the likelihood of being exposed and settled. In addition, potential issues in corporate performance are more likely to be uncovered with a higher number of audit committee members. Frequent meetings by an audit committee gives them the opportunity of knowing the issues being faced by the company and empowers them to effectively perform their functions. Where Audit Committee members possess financial expertise, would likely reduce earnings management for firms where the corporate mechanisms are weak.

Thus, the following recommendations are proffered:

1. Companies should prioritise ACIND to enhance objectivity in financial oversight.
2. Companies should strive for an optimal ACSIZE that balances effective oversight without becoming unwieldy.
3. Companies should increase the frequency of ACMEET to ensure timely risk identification, proactive management and adaptability to changing regulatory requirements.
4. Companies should actively seek individuals with diverse financial expertise to populate the AC.

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