SSRG International Journal of Economics and Management Studies
ISSN: 2393 – 9125 / https://doi.org/10.14445/23939125/IJEMS-V9I3P104

Volume 9 Issue 3, 24-34, March 2022

Original Article

Audit Committee Effectiveness and Corporate Financial Performance of Quoted Deposit Money Banks in Nigeria

Augustine Oke Okolie [1], Justice Sunday Ogbaragu[2]

[1] *Professor, Department of Accounting, Delta State University, Abraka, Nigeria.*
[2] *M. Sc Candidate, Department of Accounting, Delta State University, Abraka, Nigeria.*

Received Date: 16 February 2022
Revised Date: 22 March 2022
Accepted Date: 26 March 2022

Abstract **-** *This study examined audit committee effectiveness and corporate performance of quoted deposit money banks in Nigeria for 10 years (2011 – 2020). Panel data was aided by E-views version 9 and Panel Unit Root Test, Correlation Matrix Test and Ordinary Least Squares test estimation tools. The study result revealed that audit committee member's financial expertise has a positive and significant influence on the corporate performance of quoted deposit money banks in Nigeria with a p-value of 0.0021, which is less than a 5% significant level; audit committee size has a positive and significant influence on the corporate performance of quoted deposit money banks in Nigeria with a p-value of 0.0216 which is less than 5% significant level; audit committee independence has a positive and significant effect on the corporate performance of quoted deposit money banks in Nigeria with a p-value of 0.000 which is less than 5% significant level; while audit committee frequent meetings have a negative and insignificant influence on the corporate performance of quoted firms in Nigeria with a p-value of 0.7405 which is greater than 5% significant level. The study recommends that, to achieve and maintain the effectiveness of the Audit Committee towards the attainment of the goals, Deposit money banks should pay attention to the audit committee member's financial expertise, audit committee size and audit committee independence. This will assure continued improvements in the public rating of financial reports of Deposit Money Banks in Nigeria.*

Keywords **-** *Audit Committee, Audit Committee Size, Audit Committee Independence, Corporate Performance, Financial Expertise.*

I. INTRODUCTION

The goal of financial reports is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users for making economic decisions (Clifford, Egbe & Leyira, 2016). The turbulent impacts of global financial crises have amplified a credible, high-quality audit committee's critical importance and effectiveness. Farouk and Hassan (2016) assert that audit committee effectiveness plays an important role in ensuring an efficient market environment and financial statements' credibility and integrity to enhance financial performance.

The purpose of an audit committee is to ensure that adequate and effective oversight functions are provided as support to the board of a company. Green (1994), as cited by Ohaka and Imaerele (2018), observed that the evolution of "corporate audit committees" was due to discontent with overall methods of corporate governance.

The audit committee's primary responsibility is to oversee the financial reporting process and monitor management due to the conflict of interest between management and shareholders, with management attempting to manipulate figures to their benefit. Helen and Arnold (2017) believe that the audit committee can play an important role in managing the audit process and mediating conflicts between the board of directors and the external auditors. In the same vein, Cohen (2016) stated that the audit committee is in charge of selecting and evaluating auditors and evaluating the influence of audit quality on the relationship between audit committee effectiveness and financial reporting quality.

Over time, there has been great concern about audit committee effectiveness, especially in cases where financial scandals have come to light, like in the case of Enron (2001) in the U.S.A, Global Crossing (2002) in the U.S.A, Lehma Brothers (2008) in U.S.A etc. Whenever a conflict of interest arises between the principal and the agent, the agent may not act in the best interest of the principal. Thus, an effective audit committee is constituted or established to avoid agency problems (Olayinka, 2019).

Several studies examined in the literature on the relationship between the audit committee and the performance of firms in Nigeria have reported conflicting findings. Studies by Dare, Efuntade, Alli-Momoh and Efuntade (2021), Seini and James (2021), Bahaq, Hakeem, Yasir and Hussein (2019) show that there exists a significant positive effect of the audit committee on a firm's performance in Nigeria. However, studies by Olayinka (2019) and Kayode (2015) show an insignificant negative effect of the audit committee on firm performance in Nigeria. Oluwatamilore (2021) shows audit committees' positive but insignificant influence on firm performance in Nigeria. Similarly, studies by Gospel and Ngozi (2019) show the significant negative effect of the audit committee on firm performance in Nigeria.

Evidence reveals that most of the studies focus and have been conducted on advanced economies, and very few appear to have been conducted on the Nigerian economy. Consequently, this study seeks to examine the effect of audit committee effectiveness and corporate performance of quoted firms in Nigeria. The study investigates the influence of audit committee effectiveness on the corporate performance of quoted firms in Nigeria. The study used members' financial expertise of audit committee members, audit committee size, audit committee independence, and audit committee frequent meetings as four proxies to measure audit committee effectiveness (Independent variables). In contrast, Returns on Equity (ROE) was used to a surrogate for financial performance.

II. LITERATURE REVIEW

The literature review in this study considers the conceptual and theoretical frameworks and the review of prior empirical studies. This study's independent and dependent variables are audit committee effectiveness and corporate performance.

A. Concept of Audit Committee

An audit committee is essentially an oversight committee created to aid management in ensuring effective internal controls and quality financial statements. The committee acts for and on behalf of the board of directors and ultimately the shareholders to ensure that key controls are operating, ethical practices are enforced, key accounting estimates and judgments are properly made and internal and external audits are effectively conducted (Audit Committee Institute, 2017).

Blumen (2017) stated that an audit committee is an independent oversight body of an organization designed to improve the organization's overall governance framework. In the public sector, the audit committee plays an advisory role and generally helps achieve improved accountability; strengthened control environment; fulfilled council and accounting officers' stewardship, leadership and control responsibilities.

Okolie (2013) stated that all public limited liability companies registered in Nigeria are mandated by section 359 (3), CAMA 2004 (as amended in 2020), to serve as a bridge between the external auditors and the board of directors. An audit committee in Nigeria, according to Okolie, is a committee comprising an equal number of directors and shareholders of a company appointed to liaise effectively between the board of directors and the external auditors to the company.

Audit committees are a product of the failure of large corporations in Europe and America since 1986. The major causes for failure were: manipulation of accounting figures; fraudulent management, failure by the external and internal audit; unethical management; incompetent senior management etc. This led to the formation of various committees/commissions like Tread way Commission, Blue Ribbon Committee (in the USA); Cadbury Committee; Macdonald Committee [in the UK] and Bosch Committee in Australia (Verschoor,2018).

Oniwinde (2016) posits that the reported cases of poor and fraudulent financial reporting and governance experienced recently in Nigeria demonstrate audit committee significance in the discharge of oversight financial reporting responsibility. The audit committees are needed to improve the reliability of financial reporting, auditing and to increase corporate accountability and governance standards.

The revised and adopted Audit Committee Charter (2015) states that the Board of Directors appoints the Audit Committee to assist the Board in fulfilling the oversight responsibility to stockholders, potential stockholders, the investment community and others relating to the company's financial statements and the financial reporting process. Therefore, the audit committee maintains free and open communication between the Audit Committee, the external auditors, the internal auditors and the company management.

B. Concept of Corporate Financial Performance

Firm performance is critical to the economic well-being of the shareholders and other interested stakeholders. However, without the sound oversight function of the Audit Committee, the integrity of financial reporting is not reliable, and the macroeconomic system may be exposed to a major risk. In the study conducted by Kohlberg (2016), the concept of performance centres on monitoring of organization's objectives and the implementation of the strategy to achieve the set objectives. Generally, performance measurement plays an important role in developing strategic plans and evaluating the achievement of organizational objectives and serves as a pointer to an organization's growth.

Performance can be seen from many perspectives, such as profit before tax, profit after tax, growth in earnings per share, or a firm's market share. Investors are keen on dividends and growth in the market price of shares, which attracts investors toward investment in shares that will further raise the stock market's demand and lead to increasing stock prices and performance of the stock market. Yermack (2016) posits that when conceptualizing performance, one has to differentiate between an action and an outcome of the action, which ultimately results in performance. Financial performance is a subjective measure of how well a firm can utilize its assets to generate revenues from its primary business activities. The term also depicts the Firm's overall financial health over a given period.

C. Theoretical Exposition of Relationship in Hypotheses Variables

The predictor variables of this study are used to explain the relationship between audit committee effectiveness and corporate performance, including Audit Committee Members' Financial Expertise, Audit Committee Size, Audit Committee Independence, an Audit Committee Meeting. The relationships between these variables and firm performance are presented before.

a) Audit Committee Member's Financial Expertise and Corporate Performance

The issue of financial expertise for at least one audit committee member was first recognized under Section 359 (3) and (4) of CAMA 2004 (as amended. 2020) re-echoed in the SEC code of 2011. At least one of the audit committee members should have sound knowledge of financial and accounting matters. Financial reporting and its related internal control processes are complex, and only those members who have the relevant competence and financial expertise in accounting or finance can understand the statements (Xie, Davidson & DaDalt, 2016). Audit committee members with financial and accounting expertise are thought to be able to unveil any opportunistic earnings management activities more effectively. This study assumes that audit committees with financial expertise have greater interaction with their internal auditors (Raghunandan, Read, & Rama, 2015) and are less likely to witness internal control issues (Krishnan, 2005) and are more likely to understand external auditors and support the auditors in conflict situations with management. This implication is a boost to the financial performance and an improved confidence level and reporting quality of the financial reports. Thus, the first hypothesis is presented in the null form as follows:

$H0_{1:}$ Audit committee members' financial expertise has no significant effect on the corporate performance of quoted deposit money banks in Nigeria,

b) Audit Committee Size and Corporate Performance

Audit Committee size refers to the number of persons appointed to be members of the audit committee. In Nigeria, the Companies and Allied Matters Act 1990 (as amended in 2004 and 2020) provided that the composition of the statutory audit committee for quoted companies shall be six (6) members, with three (3) being shareholders and the other three (3) being directors of the company. In CAMA 2020, the provision on the composition of the audit committee of quoted companies has been reduced to five members with three shareholders and two non-executive directors of the company with at least one member of a recognized professional accounting body in Nigeria. What is provided in CAMA 2020 is in line with the principles of the Nigerian Code of Corporate Governance 2018, which states that at least one member of the audit committee shall be a "financial expert…."

Appah and Tebepah (2020) stated that the audit committee members are expected to be conversant with basic financial statements. He argued that an increase in the size of the audit committee might result in poor participation by some directors, which in turn affects the cohesion of the committee in making decisions, thereby undermining the monitoring and controlling roles for which the committee is established. This, in turn, could affect corporate performance. The study, therefore, proposes the second hypothesis as follow:

$H0_2$: Audit committee size has no significant effect on the corporate performance of quoted deposit money banks in Nigeria,

c) Audit Committee Independence and Corporate Performance

An independent director is described as an individual with no significant personal interests in the company, such as a significant contractual relationship with the company. An independent audit committee is expected to provide an unbiased assessment and judgment and monitor management effectively. Moreover, Osemene&Fakile (2018) asserted that independent directors could reduce agency problems. In other words, a positive relationship between audit committee independence and firm performance is expected and justified. Assenga, Aly and Hussainey (2018) submitted that a large proportion of independent directors safeguards owners' resources from management conflicts of interest. This leads to the third hypothesis stated in the null as follows:

$H0_3$: The Independence of audit committees has no significant effect on the corporate performance of quoted deposit money banks in Nigeria.

d) Audit Committee Meeting and Corporate Performance

The frequency of audit committee meetings can be used to measure their effectiveness. Osemene and Fakile (2018) stated that the audit committee meets three times a year. Audit committee meetings serve as an important mechanism for improving and promoting corporate governance in firms. There is the likelihood that financial fraud would be reduced if the audit committee met frequently and carried out its required duties. It is assumed that the audit committee that meets frequently is up to date with challenges in the business environment and is more proactive in discharging its responsibilities. This may result in the improved financial performance of the Firm. Therefore, the study suggests the fourth hypothesis as follows:

> $H0_4$: Audit committee's frequent meetings have no significant effect on the corporate performance of quoted deposit money banks in Nigeria.

D. Theoretical Framework

This study is built on the foundations of the agency and the stakeholders' theory. The agency theory was created by Stephen Ross (1974) as cited in the works of Olayinka (2019) but popularized by Jensen and Meckling (1976). It came into existence as a result of information asymmetry and self-interest. The principals lack reasons to trust their agents and seek to resolve these concerns by putting in mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetry and opportunistic behaviours.

Agency problem occurs when one person or entity (agent) can make decisions on behalf of or that impacts another person or entity, the 'principal' (Eisenhardt, 2016). This dilemma exists in circumstances where agents are motivated to act in their own best interests contrary to those of the principals and is an example of a moral hazard. The deviation from the principal's interest by the agent is called "agency costs". The external audits help minimize the agency problem, while the audit committee is a creation of the board to ensure the full realization of audit goals and internal control objectives.

Stakeholder theory explains the relationship between organizations and their external environment (Freeman, Wicks & Parmer, 2015). A stakeholder is defined as a human agency that affects or has an impact on organizations (Gray, Owen & Adams, 2016). Stakeholders represent the big umbrella for all individuals and parties that may have a direct or indirect interest in an organization. The direct stakeholders who constitute members of the dominant coalition in the Firm include shareholders, employees, investors, customers and suppliers whose interests are aligned with the company. The indirect members of the stakeholder coalition include the government and competitors indirectly affected by the company's function (Kiel & Nicholson 2016). Organizations are accountable to shareholders and stakeholders, and accountability requires many factors and conditions to maintain and manage the stakeholder-organizations relationship.

Stakeholder theory is an extension of the agency model, which is believed to equip managers better to articulate the shared purposes of their Firm and board of directors to look after the interests of shareholders. The linkage between stakeholder theory and earnings management is explained by Hodge (2016), who document that management may manipulate earnings to improve their private interests at the expense of shareholders and the rest stakeholders. Stakeholders' theory views external audits as effective monitoring systems that could protect all stakeholders' interests. According to Steven and Oslen (2016), a high-quality external audit is associated with high earnings quality and low earnings management. The need for audit quality suggests that the role of external auditors as a monitoring mechanism is not only directed to shareholders but also to the interests of all stakeholders. The relationship between the Stakeholders' theory and the audit committee is anchored on external audit as an effective monitoring system that protects all stakeholders' interests (Baker and Owsen, 2012).

E. Review of Prior Empirical Literature

Oluwatamilore, Kingsley, Tumininu, Faith, and Andrew's (2021) study focused on discovering the association between audit committee, board attributes and the market performance of listed deposit money banks in Nigeria. The variables employed include audit committee size, gender diversity, expertise, and board shareholding on market performance. Panel data was gathered from twelve (12) banks listed on the Nigerian Stock Exchange from 2013 to 2017. The study used fixed and random regression analysis. The results showed that the association between audit committee size, board size and Tobin Q was negatively significant. There was a significant positive impact of audit committee gender diversity and audit committee expertise on Tobin Q. The study showed board shareholding's positive but insignificant influence on market performance.

Olayinka (2019) studied the effect of the audit committee and Firm's performance in Nigeria, emphasising eight public quoted banks in Nigeria. The data were sourced from the annual reports and accounts of eight banks in Nigeria for 2011-2015. Independent variables proxies include the size of the audit committee, the frequency of meetings of the audit committee and the financial literacy of audit committee members, while profit before tax was the dependent variable. The data were analyzed using Ordinary Least Square (OLS) regression. The findings revealed that audit committee size, frequency of audit committee meetings and financial literacy of audit committee members have no significant effect on firms' performance in Nigeria.

Alqutamin (2018) investigate audit committee effectiveness and company performance: Evidence from Jordan during 2014-2016. The sample consists of 165 non-financial companies listed on the Amman Stock Exchange (ASE). The study results show that the audit committee size, independence, and gender diversity have a significant positive relationship with the Firm's performance, whereas experience and frequency of meetings have an insignificant association.

Osemene and Fakile (2018) examined the effectiveness of audit committees and the financial performance of deposit money banks in Nigeria. Return on equity (ROE) was used to measure financial performance, independence, financial expertise and frequency of meetings were identified as possibly having effects on financial performance. Correlation and ordinary least squares (OLS) regression were used to estimate the relationship between audit committee characteristics and financial performance. Findings indicate that audit committee financial expertise and audit committee meetings significantly influence deposit money banks' financial performance.

Al-Matari, Homaid and Alalraj (2016) examined the influence of audit committee (AC) effectiveness on bank's performance in Yemen. The study used the proxies of the frequency of meeting between AC and internal auditors, AC reviews of the internal audit proposals and AC reviews of the internal audit results on the bank's performance. The scope of the study was 20 banks. The findings showed a significant relationship between the three AC effectiveness characteristics and the performance of banks.

Ojeka, Iyoha and Obigbemi (2016) studied the effectiveness of audit committees and firm financial performance in Nigeria using four characteristics: independence, financial expertise, size, and meetings of the audit committee. The performance measures were Return on Equity (ROE), Return on Asset (ROA) and Return on Capital Employed (ROCE). Twenty-five (25) manufacturing firms were selected and from which data were collected for the period (2004-2011). The empirical analysis was carried out using regression and correlation. The analysis result showed a significant positive relationship between independence and financial expertise of the audit committee and ROA, ROE and ROCE. However, the size and meetings of the audit committee showed no significant relationship with all performance variables

Ida and Asunka (2016) studied the effect of the audit committee on the performance of firms listed on the Ghana stock exchange. The purpose was to examine the association between the characteristics of audit committees and the performance of firms. Data were collected from 36 trading stocks on the Ghana Stock Exchange for the financial year 2015. The number of meetings and financial experts, among other characteristics, were the predictors of the performance of the traded stock on the Ghana Stock Exchange (GSE). To test the hypothesis for the study, Logit cross-sectional regression using SPSS 17.0 version was utilized. The study revealed a relationship between the characteristics of the audit committees and the performance of the firms.

Meanwhile, the number of independent members on the audit committee did not influence the performance of the firms. However, the number of independent audit committee members with finance or accounting degrees impacted the Firm's performance negatively. The study recommended that the corporate governance discussions should be re-focused from independence to more experienced and financially literate members of the Audit Committees.

Ojulari (2016) examines the relationship between audit committee characteristics in Nigeria and firms' value. Five audit committee characteristics variables and five firm value variables were used. The five audit committee characteristics adopted for the study are the size of the audit committee, director's independence, financial literacy of directors, number of meetings held by the committee and multiple directorships. The five variables used for a firm's value are Return on Equity, Net Profit margin, Sales/Turnover Growth, Tobin's Q and Dividend yield. Twenty-five FTSE100 firms were selected for the study, and two years of data were collected on these firms to give a 50-year data set. The result reveals that the two variables (i.e. Audit committee and financial performance) are more positively related to an overall efficiency than on an individual basis when looked at from the profitability angle. At the same time, they are more related individually than collectively when looked at from an investors' angle. The study concludes that all the variables of audit committee effectiveness work together to improve firms' profitability, but investors pay more premiums on some of the audit committees' characteristics than others. The study concludes that audit committee effectiveness does impact a firm's value.

Kamolsakulchai (2015) examined the impact of the Audit Committee's effectiveness and audit quality on the Financial Reporting Quality of the listed company in the Stocks Exchange of Thailand. The study investigated the relationship between the audit committee's effectiveness and audit quality on financial reporting quality. Panel data were collected from Form 56-1 and financial statements of listed firms, including three industry groups, on the Stock Exchange of Thailand from 2008 to 2012. Data were analysed using Panel Fixed Effects Models. The results show that audit committee effectiveness had a significantly positive relationship with financial reporting quality, and as the size of the audit committee increased, financial reporting quality was improved.

Al-Mamun, Yasser, Rahman, Wickramasinghe, and Nathan (2014) examined the relationship between Audit Committee Characteristics, External Auditors and Economic Value Added to Public listed Firms in Malaysia. The study used EVA as the performance measurement tool. The sample is 75 firms, and the year observations are 2008-2010. The study's findings show that audit committee independence is positively associated with firm performance while audit quality is negatively associated with a Firm's performance. Generally, audit committee characteristics have a positive effect on firm performance.

a) Gap in Literature

The empirical review of previous studies like Oluwatamilore, Kingsley, Tumininu, Faith and Andrew (2021) showed that the study was more on market performance. Its objective was to discover various audit committees, board attributes and how it affects the market performance of quoted deposit money banks in Nigeria. The current study focuses on audit committee effectiveness and its influence on corporate performance.

The study by Olayinka (2019) used the size of the audit committee, the frequency of meetings of the audit committee and the financial literacy of audit committee members as independent variables, while profit before tax was the dependent variable. This present study modified the model by adding audit committee independence to the model, thereby extending the scope of the study.

The empirical review shows that Ojeka, Iyoha and Obigbemi (2016) studied the effectiveness of audit committees and corporate performance in Nigeria using independence, financial expertise, size, and audit committee meetings. The performance measures were Return on Equity (ROE), Return on Asset (ROA) and Return on Capital Employed (ROCE). Twenty-five (25) manufacturing firms were selected and from which data were collected for the period (2004-2011). Though the study used the four variables adopted in the current study, the focus was on manufacturing firms, and the data used covered 2004-2011. The current study focuses on deposit money banks in Nigeria, and current data of company financials from 2011-to 2020 were used, thereby updating the scope of the study. In addition, over the years, most of the studies on audit committees focused on advanced countries and very few on developing countries like Nigeria. This study bridges the gap by focusing on Nigeria.

III. RESEARCH METHODOLOGY

The study adopts the ex-post facto research design to analyze audit committee effectiveness on the corporate performance of quoted deposit money banks in Nigeria. The adoption of this method is because the data gathered were both time-series and cross-sectional. Although the quoted firms used for this study were selected using the judgmental sampling technique, much care was exercised during data collection. Secondary data were used, of which ten quoted deposit money banks in the Nigeria stock exchange were examined over 10 years (2011 to 2020). Annual reports were used to extract data. The banks were listed on the Nigerian Stock Exchange (NSE) as of December 2020. The Panel Data were analysed using the Ordinary Least Square (OLS) regression estimation technique using the Eviews 9.0 statistical package.

A. Model Specification

The validity source from which the model was adopted is the works of Olayinka (2019), who used the size of the audit committee, the frequency of meetings of the audit committee and the financial literacy of audit committee members as independent variables profit before tax was the dependent variable. This present study modified the model by adding audit committee independence to the model, thereby extending the scope of the study.

$Y = \alpha_0 + \beta_x + \varepsilon_t$............................... Eqn 3.1

Equation 3.1 is defined in terms of the objective function of this study as:

$CRP = f\,(ACE) + \varepsilon_t$--------------------------------------Eqn 3.2

Given that CRP represents corporate performance and is measured by returns on equity (ROE), ACE represents audit committee effectiveness. When all variables are finally entered, the equation becomes:

$ROE = f\,(ACMMFE, ACSZ, ACI, FREQ) + \varepsilon_t$---- Equ3.3

Then the variables are coded into the main regression model as shown below:

$ROEy = \alpha_0 + \beta_1 ACMMFE + \beta_2 ACSZ + \beta_3 ACI + \beta_4 FREQ + \varepsilon_t$--- Equ 3.4

Where:

a) ROE

Returns on Equity

b) ACME

Audit committee members' financial expertise is measured by the financial literacy of audit committee members, and the minimum acceptable for this study is 20%. It is coded 1 if the financial literacy of members is 20% and above, then otherwise 0.

c) ACSZ

Audit committee size as measured by the number of directors in the audit committee.

d) ACI

Audit committee independence as measured by the ratio of independent directors to the total number of directors in the audit committee

e) FREQ

Frequent meeting denotes the frequency of audit committee meetings, and the minimum acceptable for this study is 4times. It is coded 1 if the frequency of audit commit meeting is 4 and above; otherwise, 0

α_0: a constant, equals the value of Y when the value of X = 0
β: coefficient of the independent variables
ε_t: the error term

IV. DATA PRESENTATION, ANALYSIS, RESULTS AND DISCUSSION

Table 4.1. Descriptive Statistics for Variables

	ROE	ACMMFE	ACSZ	ACI	FREQ
Mean	0.289821	1.000000	5.220000	0.510058	0.133874
Median	0.169885	1.000000	5.000000	0.350575	0.057750
Maximum	2.109480	1.000000	10.00000	0.982950	1.164000
Minimum	0.001270	1.000000	1.000000	0.295130	0.010000
Std. Dev.	0.418849	0.000000	2.209164	0.216067	0.215836
Skewness	2.642935	-0.196418	0.301357	0.616697	3.223545
Kurtosis	10.61495	1.762758	2.089504	1.948779	13.67794
Jarque-Bera	358.0329	7.021196	4.967779	10.94302	648.2639
Probability	0.000000	0.079879	0.083418	0.004205	0.000000
Sum	28.98205	100.0000	522.0000	51.00580	13.38740
Sum Sq. Dev.	17.36799	0.000000	483.1600	4.621814	4.611916
Observations	100	100	100	100	100

Source: Author's Computation using E-views 9.0

Table 4.1 summarises the descriptive statistics obtained from the panel data used for this study. Findings show that, on average, the ROE score for the selected banks is 0.289, which indicates that most banks have a fairer turn on equity. For ACMMFE, the mean is 1.000, while the maximum size is 1.000. This implies that the audit committee for the study firms all knows about finance. The average score for ROE is 28%, ACSZ is 5%, ACI is 51% FREQ is 21%. For audit committee size (ACSZ), the average is 5, with a minimum of 1 and a maximum of 10. The highest average score is 51% for audit committee independence (ACI), which indicates that the audit committees were independent for all the firms used in the study, while the minimum is about 29% and the maximum 98%.

Table 4.2. Correlation Matrix

	ROE	ACMMFE	ACSZ	ACI	FREQ
ROE	1				
ACMMFE	0.43500	1			
ACSZ	0.37131	0.40920	1		
ACI	0.52791	0.23063	0.28228	1	
FREQ	-0.03949	-0.01068	0.202485	-0.09096	1

Source: Author's Computation using Eviews 9.0

Table 4.2 simply summarizes the level of correlation between the study's independent variables, as shown above. The essence of this test is to examine the relatedness of the selected variables if they reflect any trace of multi-collinearity, which reveals high levels of pair-wise correlation of 80% or more. However, for this study, the correlation between audit committee member's financial literacy (ACMMFE) and ROE is positive at 43%, and this simply explains that the financial literacy of its members will always contribute positively to the effectiveness of the audit; for audit committee size (ACSZ) and ACMMFE, the correlation is positive at 40%. The correlation between audit committee independence (ACI) and ACSZ is positive at 28% because it is expected that a high level of independence should be enjoyed when the committee size is large. They can't be easily influenced by one party. The Correlation between FREQ and ACI is negative at 9%. Finally, based on the general outcome of this test, the problem of multicollinearity is not present within the variables.

Table 4.3. Unit Root Test Result

Variables	Order	ADF	P-value	Decision: P<0.05	Conclusion
ROE	I(0)	61.800	0.000	No unit root	Stationary
ACMMFE	I(2)	51.9467	0.000	No unit root	Stationary
ACSZ	I(2)	39.8472	0.000	No unit root	Stationary
ACI	I(2)	54.4398	0.000	No unit root	Stationary
FREQ	I(2)	46.2275	0.000	No unit root	Stationary

Source: Author's Computation using E-views 9.0

The null hypothesis states that the panel data have a unit root. The result must show a lower probability value than the critical value at any level of significance. To reject the null hypothesis, each variable showed the absence of unit root (i.e. stationary) at a 5% significance level. Therefore, we accept the null hypothesis, which states that the data has no unit root, and conclude that there is a presence of data stationarity.

Dependent Variable: ROE

Method: Panel Least Squares

Date: 10/14/21 Time: 19:06

Sample: 2011, 2020

Periods included: 10

Cross-sections included: 10

Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.472116	0.107586	-4.388243	0.0000
ACMMFE	0.186641	0.059149	3.155421	0.0021
ACSZ	0.107324	0.017495	1.561846	0.0216
ACI	0.815030	0.164047	4.968288	0.0000
FREQ	-0.053269	0.160360	-0.332184	0.7405

R-squared	0.836510	Mean dependent var	0.289821
Adjusted R-squared	0.814363	S.D. dependent var	0.418849
S.E. of regression	0.346364	Akaike info criterion	0.680138
Sum squared resid	11.39699	Schwarz criterion	0.810397
Log-likelihood	-33.30281	Hannan-Quinn criter.	0.732856
F-statistic	15.68999	Durbin-Watson stat	1.689896
Prob(F-statistic)	0.000000		

Table 4.4. Regression Estimation Result

Estimation Command:
=========================
LS(?) ROE C ACMMFE ACSZ ACI FREQ

Estimation Equation:
=========================
ROE = C(1) + C(2)*ACMMFE + C(3)*ACSZ + C(4)*ACI + C(5)*FREQ

Substituted Coefficients:
=========================
ROE = -0.472115533373 + 0.1866405779*ACMMFE + 0.027324115426*ACSZ + 0.815030222917*ACI - 0.053269090773*FREQ

Source: Eviews 9.0

A. Discussion of Result

The regression result shows an R-squared value of approximately 83.7%, which interprets the ability of the independent variables to account for 84% of the systematic variations in the dependent variable, while the error term is responsible for the remaining 16%. The Adjusted R-squared value of approximately 81.4% means that the model has a high predictive power, in which the independent variables explained 81% of the changes in the dependent variable. There is an absence of autocorrelation as revealed by the Durbin Watson statistics of 1.68, while the F-statistics is high at 15.6899.

The overall result reveals the linear relationship between the explanatory variables and the dependent variable, which is significant with a P-value of 0.0000. This summary confirms the statistical reliability of the selected model, showing that there is a significant link between the selected determinants of Audit committee effectiveness and the financial performance of quoted deposit money banks in Nigeria. This finding agrees with and confirms the study of Alqutamin (2018). However, the result refutes the study of Ida and Asunka (2016).

As shown in Table 4.4, the regression result shows that the coefficient of regression for audit committee members' financial expertise (ACMMFE) is 0.18. This indicates that ACMMFE positively affects the corporate performance of deposit money banks in Nigeria measured by returns on equity. Furthermore, the p-value of 0.002 shows that audit committee members' financial literacy (ACMMFE) has a significant effect on returns on equity performance in Nigeria at a 5% level of significance, leading to the rejection of the null hypothesis, which states that audit committee members financial expertise (ACMMFE) has no significant effect on returns on equity of deposit money banks in Nigeria. The result is in accordance with Ojeka, Iyoha and Obigbemi's (2016) findings, which showed that audit committee members' financial expertise has a positive and significant relationship with the corporate performance of firms in Nigeria.

As shown in Table 4.4, the regression result shows that the coefficient of regression for audit committee size (ACSZ) is 0.10. This indicates that ACSZ positively affects the corporate performance of deposit money banks in Nigeriameasuredby returns on equity. Furthermore, the p-value of 0.021 shows that ACSZ has a significant effect on returns on equity of corporate performance in Nigeria at a 5% level of significance, leading to the rejection of the null hypothesis, which states that audit committee size has no significant effect on returns on equity of firms in Nigeria. The finding agrees with the findings of Rahimi and Amini (2015), which indicate that audit committee size has a positive and significant relationship with the corporate performance of firms in Nigeria.

As shown in Table 4.4, the regression result shows that the coefficient of regression for audit committee independence (ACI) is 0.81. This indicates that ACI has a positive effect on the corporate performance of deposit money banks as Nigeriameasured by returns on equity. Furthermore, the p-value of 0.000 shows that ACI has a significant effect on returns on equity performance in Nigeria at a 5% level of significance, leading to the rejection of the null hypothesis, which states that ACI has no significant effect on returns on equity of banks in Nigeria. The finding is in harmony with Ojeka, Iyoha and Obigbemi (2016), indicating that audit committee independence has a positive and significant relationship with the corporate performance of firms in Nigeria.

As shown in Table 4.4, the regression result shows that the coefficient of regression for audit committee frequent meetings (FREQ) is -0.05. This indicates that FREQhas a negative effect on the corporate performance of deposit money banks in Nigeria measured by returns on equity. Furthermore, the p-value of 0.740 shows that audit committee frequent meeting (FREQ)has no significant effect on returns on equity of corporate performance of firms in Nigeria at a 5% level of significance, leading to the acceptance of the null hypothesis, which states that audit committee frequent meetings (FREQ) have no significant impact on returns on equity of firms in Nigeria. The finding is coherent with the findings of Olayinka (2019) and Ojeka, Iyoha and Obigbemi (2016), showing that audit committee frequent meetings have no significant positive relationship with the corporate performance of firms in Nigeria.

V. SUMMARY OF FINDINGS

- Audit committee member's financial expertise has a positive and significant influence on the corporate performance of quoted Deposit Money Banks in Nigeria, as revealed by a coefficient of 0.1866 and a p-value of 0.0021;

- Audit committee size has a positive and significant influence on the corporate performance of quoted Deposit Money Banks in Nigeria, as revealed by a coefficient of 0.1073 and a p-value of 0.0216;
- Audit committee independence has a positive and significant effect on the corporate performance of quoted Deposit Money Banks in Nigeria, as revealed by a coefficient of 0.8150 and a p-value of 0.000;
- Audit committee frequent meetings have a negative but insignificant influence on the corporate performance of quoted Deposit Money Banks in Nigeria, as revealed by a coefficient of -0.0532 and a p-value of 0.7405.

VI. CONCLUSION

This study investigated audit committee effectiveness and corporate performance of quoted firms in Nigeria. The audit committee effectiveness variables considered for this study include audit committee members' finance expertise, audit committee size, audit committee independence, and audit committee frequent meetings. The study spanned ten years (from 2011 to 2020) and for 10 deposit money banks quoted on the Nigeria stock exchange. From the results obtained in this study and conformity with the arguments of prior empirical studies, it is shown that all the predictor variables have a positive and significant impact on the corporate performance of Deposit Money Banks except audit committee frequent meetings, which have a negative and insignificant influence on corporate performance of Deposit Money Banks in Nigeria. The study concludes that audit committee effectiveness has a positive and significant impact on the corporate performance of quoted Deposit Money Banks in Nigeria.

A. Recommendations

- Deposit money banks should pay attention to the financial expertise of audit committee members to continue to improve the public rating of financial reports of Deposit Money Banks in Nigeria;
- Deposit Money Banks in Nigeria are encouraged to have a board with members from divergent backgrounds, and at least 6-member is recommended. At least 20% of the audit committee members should be financial experts for them to be able to interpret items on the financial report;
- The independence of audit committee members should be enhanced by ensuring that more independent directors are introduced into the audit committee as against executive directors who hold one form of interest or the other in the Deposit Money Banks; and
- Deposit Money Banks should pay less attention to frequent meetings of the audit committee as that has no significant impact on the corporate performance of the Banks.

B. Contributions to Literature

The policy implications and contributions to knowledge that this study bears upon extant empirical literature on audit committee effectiveness and its influence on corporate performance include:

- The study modified the existing model by adding audit committee independence to the model, thereby extending the scope of the study;
- The study focused on Deposit Money Banks in Nigeria, and current data of company financials from 2011 – to 2020 were used, and this has updated the scope of the study; and
- Over the years, most of the studies on audit committees focused on advanced countries and very few on developing countries. This study bridges the gap by focusing on Nigeria.

VII. AUTHORS CONTRIBUTIONS

Conceptualisation: Augustine O. Okolie
Data Curation: Augustine O. Okolie, Justice Sunday Ogbaragu
Formal Analysis: Justice Sunday Ogbaragu
Funding Acquisition: Augustine O. Okolie, Justice Sunday Ogbaragu
Investigation: Augustine O. Okolie, Justice Sunday Ogbaragu
Methodology: Justice Sunday Ogbaragu
Project Administration: Augustine O. Okolie,
Resources: Justice Sunday Ogbaragu
Software: Justice Sunday Ogbaragu
Supervision: Augustine O. Okolie
Validation: Augustine O. Okolie
visualisation: Justice Sunday Ogbaragu
Writing – the Original Draft: Justice Sunday Ogbaragu
Writing – Review and Editing: Augustine O. Okolie

VIII. CONFLICT OF INTEREST STATEMENT

We aver that there exists no competing interest whatsoever concerning this study.

IX. ACKNOWLEDGEMENT

The authors undertook this study with equal participation and contributions to the conception, design and analyses conducted in the study. We greatly and gratefully acknowledge the role of friends and colleagues who provided the initial critique of the manuscript.

REFERENCES

[1] Al-Matari Y.A, Homaid A.A, and Alalraj H, The Effect of Audit Committee Effectiveness on Banks Performance in Yemen. International Journal of Economics and Financial Issues. 6(4) (2016) 1424-1428.

[2] Alqutamin R.M, Audit Committee Effectiveness and Company Performance: Evidence from Jordan, Accounting and Finance Research. 7(2) (2018) 48-60.

[3] Appah E, and Tebepah S. F, Audit Committee Attributes and Reporting Lag of Listed Consumer Goods Firms in Nigeria, International Journal of Economic and Financial Management. 5(2) (2020) 2695-1932

[4] Assange M.P, Aly D, & Hussainey K, The Impact of Board Characteristics on the Financial Performance of Tanzanian Firms. Corporate Governance. The International Journal of Business in Society, Advance Online Publication. (2018). DOI: 10.1108/CG-09- 2016-0174.

[5] Baha H.M, Hakeem H.F, Yasir N.M, and Hussein Q. A, The Effect of Audit Committee Characteristics on Firm Performance: An Empirical Study of Listed Companies in Iraq, Journal of Engineering and Applied Science. 14 (2019) 4919-4926.

[6] Blumen A, Functioning of Audit Committees. Tanzania: Deutsehegesellsechaftfur. (2017).

[7] Clifford O.F, Egbe S., Lira C.M, Corporate Financial Accounting and Reporting: A Practical Implementation Guide. Portharcourt: David Stones Global Resourced Ltd. (2016).

[8] Cohen H, The Corporate Governance Mosaic and Financial Reporting Quality. Journal of Accounting Literature. 23(1) (2016) 1-27.

[9] Dare C.T, Efuntade A.O, Alli-Momoh B.O, and Efuntade O.O, Audit Committee Characteristics and Audit Quality: Explanatory and Empirical Analysis in the Nigerian Oil Sector. European Journal of Accounting, Auditing and Finance Research. 9(1) (2021) 97-111.

[10] Eisenhardt K.M, Agency-and Institutional-Theory Explanations: The Case of Retail Sales Compensation. Academy of Management Journal. 31(3) (2016) 488-511. https://doi.org/10.23071256457.

[11] Farouk M.A, & Hassan S.U, Impact of Audit Quality and Financial Performance of Quoted Cement Firms in Nigeria. International Journal of Accounting and Taxation. 2(2) (2016) 1-22.

[12] Freeman R.E, Wicks A.C, & Parmar B, Stakeholder Theory and the Corporate Objective Revisited. Organization Science. 15(3) (2015) 364-369. https://doi.org/10.1287/orsc.1040.0060.

[13] Gospel J.C, and Ngozi N, Audit Committee Characteristics and Timeliness of Corporate Financial Reporting in the Nigeria Insurance Company, International Journal of Managerial Studies. 7(4) (2019) 86-95.

[14] Helen B.C, and Arnold M.W, The Effect of Past Client Relationship and Strength of the Audit Committee on Auditor Negotiations. Auditing a Journal of Practice & Theory. 30(4) (2017) 1-24.

[15] Hodge F, Investor's Perceptions of Earnings Quality, Auditor Independence, and the Usefulness of Audited Financial Information: Accounting Horizons. (2016).

[16] Ida G.A, and Asunka B.A, The Effect of the Audit Committee on the Performance of Firms Listed on the Ghana Stock Exchange, IOSR Journal of Business and Management. 18(11) (2016) 55-62.

[17] Jensen M.C, & Meckling W.H, Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure, Journal of Financial Economics. 3 (1976) 305-360.

[18] Kayode O, Impact of the Audit Committee on Firms Performance, Asian Social Science. 10 (2015) 149-171.

[19] Kiel G. C, & Nicholson G. J, Board Composition and Corporate Performance: How the Australian Experience Informs Contrasting Theories of Corporate Governance. Corporate Governance International Review. 11(3) (2016) 189-205.

[20] Kohlberg W.R, Auditor Independence: A Burdensome Constraint or Core Value? Accounting Horizons. 13(1) (2016) 69-75.

[21] Osaka J, and Imaerele T.A, Audit Committee Independence and Corporate Reporting Quality in Aluminum Corrugating Companies in Rivers State, International Journal of Economics and Financial Management. 3(1) (2018) 2545-2945

[22] Rijeka S.A, Iyoha F.O, and Obigbemi I.F, Effectiveness of the Audit Committee and Firm Financial Performance in Nigeria, Journal of Accounting and Auditing: Research and Practice. 4 (2016) 1-11.

[23] Ojulari B.T, Relationship Between Audit Committee Characteristics in Nigeria and Firms Value, International Journal of Humanities and Social Science. 1 (2016) 29-35.

[24] Okolie A. O, Fundamentals of Auditing, 4th Edition: Progress Printing Associates, Agbor, Nigeria. (2013).

[25] Olayinka O.M, Audit Committeea and Firms Performance in Nigeria: Case Study of Selected Nigerian Banks, International Journal of Scientific and Research Publications. 9(9) (2019) 88-94.

[26] Oluwatamilore O, Kingsley A.A, Tumininu O, Faith O, Andrew L, Audit Committee Attribute, Board Attribute and Market Performance of Listed Deposit Money Banks in Nigeria, Banks and Bank System. 16(1) (2021) 168-181.

[27] Oniwinde I, Corporate Governance in Nigeria Manufacturing Industry Ogun: Covenant University. Unpublished (Bsc Degree Thesis), Covenant University. (2016).

[28] Osemene O.F, & Fakile O.G, Effectiveness of the Audit Committee and Financial Performance of Deposit Money Banks in Nigeria, Fountain University Osogbo Journal of Management. 3(3) (2018) 23-34.

[29] Raghunandan K, Reed W, & Rama D, Audit Committee Composition, Gray Directors and Interaction with Internal Auditing, Accounting Horizon. 15(2) (2015) 105- 118.

[30] Rahimi G, The Survey of Relationship between Auditing Quality and the Profitability in the Companies Accepted in Tehran's Exchange Market, International Journal of Academic Research in Accounting, Finance and Management Sciences. 5(2) (2015) 105-106.

[31] Seini A, and James U.O, Audit Committee Characteristics and Audit Fees of Listed Consumer Goods Sector in Nigeria, European Journal of Accounting, Auditing and Finance. 9(2) (2021) 27-50.

[32] Xie B, Davidson W.N, and Dadalt P.J, Earnings Management and Corporate Governance: The Role of the Board and the Audit Committee, Journal of Corporate Finance. 9 (2016) 295-316.

[33] Yermack D, Higher Market Valuation of Companies with a Small Board of Directors, Journal of Financial Economics. 40(2) (2016) 185-211.