European Journal of Accounting, Auditing and Finance Research
Vol.9, No. 8, pp.26-43, 2021
Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)

EXAMINING EFFECT OF AUDIT COMMITTEE ATTRIBUTES ON FIRM PERFORMANCE: EVIDENCE FROM LISTED FOOD AND BEVERAGES FIRMS IN NIGERIA

Osevwe-Okoroyibo, E. E.
Department of Accountancy, Delta State University of Science and Technology, Ozoro, Delta State, Nigeria.

Emeka-Nwokeji, N. A. (PhD)
nk.emekanwokeji@coou.edu.ng
Department of Accountancy, Chukwuemeka Odumegwu Ojukwu University of Igbariam Campus, Anambra State, Nigeria.

ABSTRACT: *Persistent material misstatements in financial statements and subsequent loss of stakeholder's confidence on credibility of reported information necessitated the establishment of statutory audit committee by corporate governance ethic of most countries including Nigeria. This paper examined effect of different audit committee attributes on performance of firms listed in the food and beverage industries in Nigeria Stock Exchange. Audit committee independence, audit committee financial expertise and audit committee meeting are proxy for measuring audit committee attributes while financial performance was measured with Earning Per Share (EPS). Ex-post facto research design was adopted and secondary data were collected from annual reports of selected firms spanning eight years from 2011 to 2018. The population of this study constitute of all firms listed under the food and beverages sector in Nigeria stock exchange which are twenty-one (21) firms as at December 31st, 2018. The study purposively selected fourteen (14) firms based on the availability of their annual reports. Data were analysed using descriptive and inferential statistics. Descriptive statistics and inferential statistics was conducted. Analyses revealed that: audit committee independence and audit committee expertise has positive but insignificant effect on firm performance measured with EPS, while audit committee meeting exhibit positive and significant effect on EPS of listed food and beverages firms in Nigerian Stock Exchange (NSE). Based on the findings, this study therefore recommended that firm should sustain frequencies of audit committee meetings, so as to ensure that the committee has enough time to take decisions that are efficient and effective in enhancing better firm performance. This study also recommends that regulatory bodies should ensure that audit committee are made more effective by ensuring that members includes independent non-executive directors and also ensure that more members with financial expertise especially accounting expertise be drafted into the audit committee to improve performance of firms.*

KEY WORDS: audit, audit meeting, audit committee characteristics, financial expertise, audit independence, performance.

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

INTRODUCTION

Establishment of statutory audit committee was necessitated by the corporate governance ethic of most countries, including Nigeria, due to persistent material misstatements in financial statements and subsequent loss of stakeholder confidence in the credibility of reported information. In the view of Afify (2009) cited in Oroud (2009), one of the most important parts of corporate governance is the audit committee, which aids in the control of management practices. Auditing committees also help increase accuracy of information in financial statements (Contessotto & Moroney, 2014), and reduce the likelihood of audits risk. According to Kallamu and Saat, (2015) in order to safeguard shareholders' rights, audit committees play an essential role in the oversight, control and management of the company. Herdjiono and Sari (2017) agreed that the audit committee's efficiency and productivity can be measured in a manner that is beyond the reach of the corporation particularly in an evolving market climate. It is expected that a successful audit committee would prioritize the optimization of shareholder capital and discourage managers from maximizing their selfish goals (Bansal & Sharma, 2016). The responsibility and duty of the audit committees include to make decisions on the selection and transfer of foreign auditors, covering broader areas, including management oversight and review of the company's internal control system (Aldamen, Duncan, Kelly, McNamara, & Nagel, 2012).

Audit committee and external auditors are seen by Al-Mamun, Yasser, Rahman, Wickramasinghe and Nathan (2014) as players who have an important role in assessing the authenticity, the acceptability and the efficiency of the financial statements. They however, noted that happenings in corporations such as Enron, WorldCom and Satyam, have questioned auditor independence, the efficacy of legislators and audit committee in ensuring that their financial records are published fairly to reduce inefficiency due to the failure of corporate skyscrapers. Contrary to this view, Helen and Arnold (2011) believed that the audit committee could play an important part in monitoring the audit performance and enhance settlement of conflicts between the director and the external auditor. Although organizations comply with the regulatory criteria in terms of having audit committee to escape penalties, not all such committees boost the efficiency of businesses (Beasley, Carcello, Hermanson & Lapides, 2000). Thus audit committee's success is dependent not only on the nature of the committee, but on the features of the committee (Zábojníková, 2016). Knowledgeable audit committees have been commended to lead to improvement in company's activities and thus good audit committee characteristics are related to good corporate results (Zabri, Ahmad, & Wah. 2016).

In the world of high-level organizational failures, focus has now been moved to corporate governance, efficacy of audit committees, commissions, disclosures, internal controls, and independence of auditors. Audit committees have improved corporate institutional control internationally. This study, therefore, evaluates the extent to which audit committee attributes disclosed in the annual report affect market-based performance measures (earning per share) of fourteen firms purposively selected from food and beverages industry of Nigeria Stock Exchange. These firms were chosen because they contribute immensely to sustainable development in

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

Nigeria. The study is an attempt towards extending the literature on audit committee attributes to relatively unexplored but important sector in Nigeria economy and using together those attributes which extant research in Nigeria have overlooked. Specifically, the paper examines effect of audit committee independence on firm's financial performance; investigate the extent to which audit committee meeting affect firm's financial performance and; determine effect of audit committee expertise and firm's financial performance.

The rest of the study is constructed as follows: next section 2 documents the motivation for the study Section 3 reviews the prior literatures under conceptual, theoretical and empirical review leading to the hypotheses development for this study. Section 4 represents methodology including sample size and research model used in this paper. Section 5 focused on empirical results including descriptive statistics, regression result and discussion of findings. And the paper is concluded in section 6.

Statement of Problem

Interest in the role of audit committees has been on the increase given the number of financial statement fraud and high corporate failures in both developed and developing economies. It has been observed that incidence of financial fraud gives a depraved image not only to the firm where the fraud occurred but also to the entire country. Such issues bring about lower investment from foreign and domestic investors, hindering the economic development of the country (Dakhlallh, Rashid, Abdullah & Al-Shehab, 2020). Emeka-Nwokeji and Agubata (2019) noted that incessant corporate scandals across the world have resulted in increased attention on the need to improve financial reporting for the purpose of reforming the global economy and rebuilding public trust and confidence to business reported information. Thus loss of sureness in the quality of accounting information and auditing has led several countries to establish code of governance or codes of best of practices. Amongst these practices is the formation of audit committee.

There is some evidence that audit committee strengthen the credibility of financial information as its principal mission is to supervise the preparation of financial reports, the effectiveness of internal control procedures (Bouaine & Hrichi, 2019). In the view of Qeshta, Alsoud, Hezabr, Ali & Oudat (2021), audit committee plays an imperative oversight role in monitoring corporate entities (Zraiq & Fadzil, 2018) by assisting corporate board of directors in ensuring that firm's financial information is reliable, transparent, and meets the highest accountability level. The reason is because board having the member as part of the audit committee member will have their interest and operation covered by the selected member of the board present in the audit committee and this will affect the enactment of the organisation. Studies reveal that existence of external executives in the audit committee can lessen the unscrupulous behaviour of directors, enhance corporate openness together with the quality of information by mitigating the misstatement in the financial reports (Vlaminck & Sarens, 2015; Sultana, Singh, Mitchell and Zahn, 2015) and improving the performance (Nedelcu & Dinu, 2015; Kallamu & Saat, 2015).

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

While literatures recognize more and more how critical an audit committee is, research undertaken in the audit executive committee in developing economies are limited. Succinctly put, literature on effect of audit committee's features on performance of firms in an emerging economy like Nigeria is scarce (Orjinta & Ikueze, 2018). The few preceding studies provided contradictory evidence on the link between audit committee and corporate performance. Most extant studies deal with the relationship between the various components of an audit committee, including its composition, meetings frequency, financial experience and members' skills and financial results of firms in the financial sectors (Zábojníková, 2016). To the researchers' knowledge there is no current study from Nigeria that examined the link between audit committee characteristics and financial performance of firms in the Food and Beverage Industries in Nigeria. This provided justification for this study.

Conceptual, Theoretical and Empirical Review and Hypotheses development

Conceptual Review

Financial performance

Financial performance can be explained as measuring of the competence and efficacy of firms inside as well outside actions/operations. The accomplishment of the business entity is regarded as the body of the business in today's world because if a company's performance is good enough to improve its growth. The company's excellence can be taken from its reporting financial statements. Studies show that the quality control of the organization is sponsored by the stakeholder, if its performance is good. In order to accomplish the development of the organisation, it is important to evaluate the organization's current performance which will expose the distance required to achieve the organization's goals. Essentially, company's progress is determined by its results, evaluated by various methods and strategies. The performance of every firm is affected through corporate governance practice prevailing in that firm. This is so because the success or let-down of any firm is dependent on how well resources are managed efficiently. Hence, by putting a sound corporate governance practice which audit committee is part of in place, firms are able to improve its performance, allocate resources efficiently and ensure better management. Riahi-Bekaoui (2003) describes performance rather than the accounting benefit distributed to shareholders as the overall wealth produced by the company before allocation to its various stakeholders. Financial performance can be measured in different ways. This can be grouped into accounting-based measures and market-based measures. Ibida and Emeka-Nwokeji (2019) noted that firm performance can be viewed in seven features namely: growth, profitability, market value, customer satisfaction, employee satisfaction, social performance and environmental performance. Several researchers use these multiple financial performance assessment tools, but most investors rely on accounting ratios like Earning Per Share Return on Equity and Return on Asset to assess the company's financial performance. Nevertheless, this study used earning per share EPS as a new measurement for firm financial performance.

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

Audit Committee

Many listed companies across the globe have keyed into the ideas of having audit committee. The intent of this new development is to fashion space between the external and the directors of the client company. According to Nigerian Code of Corporate Governance (2018), it is desirable for every company to have a board committee responsible for audit. Also, Securities and Exchange Commission mandated listed firms on the Nigeria Stock Exchange (NSE) to set up an audit committee (SEC, 2003). The strong acceptance of the audit committee suggests its relevance as corporate governance mechanism. In the view of Qeshta et al (2021), audit committee are catalyst for implementing, observing and maintaining acceptable corporate governance practices to benefit all stakeholders and management. Nevertheless, studies show that ordinary establishment of audit Committee does necessarily mean better financial reporting quality (Kalber & Forgarty, 1998). The early function of audit committee is to supervises the mechanism of financial statements, the audit process, the management control structure, and compliance with legislative requirements. Others are to; to review regularly the financial result prepared by management, to make recommendation to the board for improvement of management control and to be concern with all matters related to the disclosure by the account of a true and fair view for the benefits of all user.

Audit committee are a working group selected by a firm as a link between the managers and the outside evaluators. The committee as a branch committee of the central body specializes in the provision of accurate and reliable report. In 1967, American Institute of Certified Public Accountant (AICPA) suggested the institution of audit committee in industries. Okaro & Okafor (2013) noted that the effective audit committee has the following advantages: to improve the discretion of the external auditor, add the integrity of audited accounts, and additional insurance of the best interests of shareholders and of society as a whole in terms of corporate policies; enhance the internal auditing; boost senior management's efficiency by raising their awareness; advance disputes between auditors and management and improve collaboration between the manager and independent auditor and management.

Audit Committee Characteristics

Literature has suggested that audit committee effectiveness is essentially function of audit committee characteristics. It has been argued that an independent, more expert, more vigilant, more involved and, with more members, appear to perform their duties more effectively (Mohiuddin and Karbhari, 2010). These are different attributes used in description of firms audit committee. Hence audit committee characteristics entails the right mixture of skills and experience which are critical in assisting audit committee to carry out its responsibilities commendably. Several studies have been done to investigate the link between audit committee features independence, tenure, size, directorship, financial expertise and frequency of meetings of audit committee members and audit quality, firm performance financial reporting quality etcetera. This study focused on the relationship between three of these attributes (audit committee independence, audit committee financial expertise and audit committee meeting) and performance of Selected Food and Beverage Industries in Nigeria

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

Audit Committee Independence

Audit committee's effectiveness, depends on its members being autonomous or free of senior management's influence and pressure (Kallamu & Saat, 2015). A committee with more non-executive directors is considered more independent than one with more executive directors (Rahmat, Iskandar, & Saleh, 2009). As a result, the committee's independence expands its capabilities, reduces the issue of agencies, and reduces the risk of insider expropriation (Yeh, Chung, & Liu, 2011). The independence of an audit committee is accomplished when third parties do not interfere with the members' monitoring process. Auditing committee's independence is thought to aid in ensuring that management is responsive to and radiant for stakeholders as was Treadway Board, (1987) Cadbury Committee (1992) & Blue Ribbon committee (1999). Independent associates of the audit committee should be more impartial and less likely to neglect serious shortcomings in the misappropriation and alteration of financial statements. In the sense of financial reporting errors, Abbott, Park and Parker (2004) find evidence to support this explanation. Following the passage of SOX in 2002, US audit committees must consist entirely of freedom associates for the pre-approval of audit and non-audit services as well as the establishment of procedures for the controlling of accounting and audit complaints. Klein (2002) takes the view that the audit committee's independence increases with the size of committee and the freedom of the management.

Audit Committee Expertise

Audit committees are responsible for the assessment and evaluation of the organizational ethics atmosphere, financial records, compliance with legislation, institutional management and information mechanisms. Gurusamy (2017) noted that having the proper personnel with the right degrees of knowledge can help a company's financial performance tremendously. Presence of an accounting or financial professional will assist a company in avoiding accounting errors (Kallamu &Saat, 2015). Similarly, having financial experts on the audit committee helps to reduce conflicts between management and external auditors and improves financial and non-financial reporting. The associates of the audit committee should certainly have the mandatory skills and knowledge to execute these duties. Accordingly, associates of the audit committee should not be audit committee members without accounting or finance expertise. BRC (1999) advises that accounting or associated financial reporting skills should be offered to at least one participant. Expertise is described as the knowledge of past financial or accounting practice, competent accounting skills or any other comparable experience or background contributing to financial maturity of the person, including becoming or serving as a senior officer in charge of financial supervision (BRC, 1999). Qin (2007) observed that organizations with better income efficiency are more closely linked to financial specialist audit committee members. In recent research this status has also been confirmed. Saleh, Iskandar and Rahmat (2007) found in their study that firm performance was tone down by audit committee qualification. Harrast and Olsen (2007), quoted in Orjinta and Ikueze (2018) have demonstrated that, if their expertise is already known, the Audit Committee has a substantial impact under SOX and greater control is involved in the financial reporting process. Likewise, the audit committee members and their experience of auditing are favorably related to the possibility of members assisting the listener in addressing the management business, a supportive relationship was found by Dezoort and Salterio (2001). For an audit Committee to efficiently supervise the financial management and reporting of an entity, a high level of financial literacy is expected as argued by Song and Windram (2000). The function of an audit committee in supervising management transparency includes a broad spectrum to include the whole corporate reporting process. The audit committee also requires accounting experience. The necessities to understand the aggregate financial and non-financial content of corporate reports is stronger in terms of how coded corporations work as conglomerates with diverse company arrangements and hence current state of the art financial statement content in corporate financial statements, financial knowledge and literacy minimized fraud.

Audit Committee Meetings

Regular audit committee meeting is more important than ever. Such gatherings could aid in the reduction of the agency's difficulty and the elimination of asymmetric information. Shareholders and all investors may be able to acquire accurate and timely data to make informed financial decisions if regular meetings are held. As a result, regular Audit Committee meetings are a critical aspect that can have a substantial impact on a company's financial success. Morrissey (2011), for the Audit Committee, recommends four social problems in one year. In addition, he declares that monetary report confirmation is achieved when four meetings are held within the year. It is argued by Menon and Williams (2014) that it is not adequate to be self-sufficient and to be dynamic for audit committees as fair bodies. Dynamics may be measured by the number of gatherings. Audit committees provide a strong predictor of the viability of audit committees in number of meetings. Financial report users see less collections as an indication that they have less burden and little time to handle the financial journalism process. Iswatia and Anshoria (2011) have observed that extended audit committee undertakings (the number of meetings) are related to declining revenue management ratios. Core (2010) creates audit committees, which meet regularly to increase the clarity and receptivity of recorded revenue, and therefore to improve the standard of income.

In order to assess whether the frequency of meetings influences the excellence of financial statements, Guthrie and Turnbull (2014), used the number meetings and found the favorable association. Prove, however, on the effect on the existence of the volatility of financial announcements by the meeting of the audit committee. Lin (2012), no association between periods and existence of financial-related detailing of repeated audit Committee occasions. The regulatory regime for which audit committees conduct meetings to administer monitoring and internal management systems is more likely to contribute to effective outcomes. In an effort to find the above Abeysekera (2010), the relation between auditing regularity and the excellence of companies registered in Kenya (NSE) was investigated. Abdul & Haneem (2006) and Mohd (2007) have shown that a lesser number of audit committee meetings have enhanced the company's financial performance as the additional expense of all meetings has been minimized, nonetheless the results of regular audit committee meetings on market measurements of firm performance were identified favourably by Kyereboah (2008)

ULR: https://doi.org/10.37745/ejaafr.2013

Theoretical Review

For the purpose of this theory the stakeholder theory is relevant. The theory's main premise is that managers in businesses have a network of interactions with various groups that both influence and are affected by the firm's actions, necessitating a move away from the traditional goal of maximizing shareholder value. The notion has lately gained traction by emphasizing the importance of considering all stakeholders, both inside and outside the company, when making choices. This theory dictates that not only owners but the other related stakeholders are fulfilled by the nature of corporate governance activities. Therefore, the auditor's duty is to produce quality reports to stakeholder for investment decision purpose. The auditor owes the stakeholder's the early duty of reporting any misstatement or error in the financial statements of the company as any cover up will be an offence and a breach of contract between the auditor, management and stakeholders.

Empirical Review

Dakhlallh, Rashid, Abdullah and Al-Shehab (2020) provided empirical evidence on effect of audit committee (AC) proxied by audit committee size, independence, financial expertise, and stock owned by audit committee on firm performance measured by Tobin's Q among Jordanian companies. Panel regression analyses was employed by the study. Results revealed that size of the audit committee, independence of audit committee, and financial expertise of the audit committee have positive and significant effect on firm performance. While the influence of stocks owned by the audit committee on firm performance is significantly negative. Bouaine and Hrichi (2019) scrutinized the impact of legal creation of audit committees on financial firm performance. It investigates in particular the effect on market act of financial companies of the establishing of audit committee. The study analyzed whether audit committee attributes such as members' discretion, size and responsibility of committee members, audit committee financial competence and duration of the audit committee meetings influence financial performance. Two measures of performance namely ROE and ROA was used and panel analysis was conducted. The findings revealed that the appearance of a legal text drives the Committee into being but has little major influence on the act of the company. Relationship between the traits of the audit committee (size, independence, financial expertise and meeting) and the productivity of industrial firms listed on Amman Stock Exchange (ASE) in 2013 to 2017 was investigated by Yazan (2019). The study's model is logically based on both the theory of the agency and the theory of resource dependency. Data from annual reports of 51 listed manufacturing companies were obtained in order to analyze the established model. In order to analyze the results, the analysis employed 51 companies with 255 observations using the panel data methodology. Furthermore, the study used firm extent and leverage as control variables. The fixed-effect model was used on the basis of the panel data findings to analyze the effects of the experimental variables on profitability, calculated by return on investment (ROI) and return on equity (ROE). The findings revealed that the attributes of the audit committee had a major impact on the performance of ASE-listed manufacturing firms. The study reveals that, when explaining CG activities in Jordan, the RD theory is more important relative to the agency theory. Zraiq and Fadzil (2018) investigated the connotation between audit committee and firm performance of the Jordanian firms. As discussed in the section describing the analysis process, the study adopts OLS regression to evaluate the link between the independent variable and the dependent variable. The details contained 228 manufacturing and business companies. During this review, Jordan is trying to close the gap. The outcomes exhibited that the scale of the audit committee and ROA were positive, but negligible. In comparison, the scale of the EPS audit committee is constructive and substantial. Moreover, the findings show significant and constructive guidance for the audit committee meetings with ROA. As an upshot, the meetings of the EPS Audit Committee are positive but insignificant. Influence of audit committee characteristics on the results of selected non-financial companies listed in Nigerian Stock Exchange was investigated by Orjinta and Ikueze (2018). The study was based on *ex post facto* and cross-sectional architecture of research and secondary data were used for the analysis. Descriptive statistics, Pearson correlation analysis and Ordinary Least Square regression were used to analyse the data obtained. The outcome showed a substantial positive interaction between freedom of the audit committee, meeting of the audit committee and firm results at a significant 5 percent level, while a positive significant correlation was also reported against the size and return on assets of audit committee, but at a significant 10 percent level, while an insignificant and positive relationship was observed. The results revealed that 76 percent of improvements in the performance of non-financial entities can be traced to the attributes of the audit committee. Rateb (2018) investigated the effects of audit committee characteristics on the company's performance. It includes 165 non-financial industries registered on the Börse of Amman (ASE) over the 2014-2016 period. The outcomes of the study indicate that the composition, freedom and gender balance of the Audit Committee have a substantial positive relationship with the company's performance. There is also an uncertain association between the assets of the audit committee and business results. In this study the audit committee's role in the performance of companies is identified and evidence that performance is driven by specific audit committee characteristics is presented. Sujatha, Muninarayanappa and Sathyanarayana (2017) investigated the association of audit committee expertise and firm performance. They felt that audit committee (AC) is now viewed as a distinct corporate governance culture and has taken a wide range of publicity around the world. Furthermore, both government officials, regulators and foreign organizations have suggested that they see an Audit Committee as a potentially effective instrument that can improve financial information's security and accountability. Being mandatory under SEBI Clause 49 of listing agreement, they concluded that an AC will be of great assistance to the board for the advantage of the company and all its stakeholders in organizational performance in the execution, supervision and continuity of good corporate governance practices. The audit committee's effect on the performance of public trading stocks on Ghana Stock Exchange was addressed by Ida and Asunka (2016). Data were obtained on a sample size of 36 traded stocks on Ghana Stock Exchange for the 2015 financial year. The analysis showed a link between the attributes of the audit committees and the outcomes of the organizations. The number of freedom associates on the audit committee, meanwhile, had little impact on the success rates of the companies. The number of free audit committee members with finance degrees, however, had a negative effect on the result obtained by the company.

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

European Journal of Accounting, Auditing and Finance Research

Vol.9, No. 8, pp.26-43, 2021

Print ISSN: 2053-4086(Print),

Online ISSN: 2053-4094(Online)

A research on the effect of different audit committee characteristics on company financial results was undertaken by Gabriela (2016) employed data from non-financial UK firms listed on the London Stock Exchange. The position of the audit committee has come under persistent scrutiny since recent accounting scandals. The key fallouts of his analysis revealed that the attributes of audit committees have an impact on the performance of UK companies. His findings indicated that the size and frequency of its meetings, financial knowledge and firm financial recital of the audit committee have a significant positive relationship. On the opposite, the audit committee's freedom appeared to be adversely associated with organisational performance.

Hypotheses development

Above paragraphs of this study demonstrate that there is a growing literature on the characteristics of audit committees. Independent, more expert, more watchful, more involved, and, with more members, appear to accomplish their jobs more effectively, according to existing studies (Mohiuddin & Karbhari, 2010 cited in Qeshta et al, 2021) Accordingly, the paper presents three null hypotheses as follow:

H_o1: audit committee independence has no significant effect on firm’s performance.

H_o2: audit committee expertise has no significant effect on firm’s performance.

H_o3: audit committee meeting has no significant effect on firm’s performance.

METHODOLOGY

Ex-post facto research design was espoused for this paper. The population of this study constitute of all firms listed under food and beverages industry in Nigeria Stock Exchange which comprise of twenty-one (21) firms as at December 31st, 2018. From all twenty-one (21) companies recorded on the Nigerian Stock Exchange, a sample of fourteen (14) firms which represent 67% or 2/3 of the entire population was purposively selected based on the accessibility of their annual reports. The panel data for this study was obtained mainly from secondary source. The study covered period of eight years from 2011 to 2018. Method of data analyses include descriptive statistics such as mean distribution, median, standard deviation and inferential statistics such as Ordinary Least Square (OLS) regression.

Model specification

With respect to the broad objective of this study, which was to assess the connection between audit committee characteristics and firm’s financial performance in Nigeria, the study adopted the model as used by Al-Mamun, Yasser, Rahman, Wickramasinghe & Nathan (2014) to examine the association between audit committee characteristics and firm performance. Their model was adopted because the study was conducted in Malaysia which is also an emerging economy like Nigeria used in the current study. Al-Mamun et al (2014) used Economic Value Added (EVA) as performance variable while this current study used Earning Per Share as performance variable. Their model is as shown below:

https://www.eajournals.org/

ULR: https://doi.org/10.37745/ejaafr.2013

Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)

EVA = $\beta 0 + \beta_1$ADIN+ β_2ACEX + β_3ACMF + β_4ACSZ + β_5ADQU + ∈

This model is hereby modified with the variables of this study and presented in the functional form as follows:

Firm Firm Perf = f (ACIND, ACEXP, ACMT) ………………(i)

Therefore, the econometric form of the model is:
$EPSit = \beta\ 0 + \beta_1 ACINDit + \beta_2 ACEXPit + \beta_3 ACMTit + \varepsilon it$ … (ii)

Where;
FIMP represents firm's performance; *AUATT* represents audit committee attributes; *EPS* represents earnings per share; *ACIND* represents audit committee independence; *ACEXP* represents audit committee expertise; *ACMT* represents audit committee meeting; β 0 is the constant or intercept β_1 to $\beta_3$is the coefficients of the variables; ε is the error term.

Operational Measure of Variable

Variable Name	**Symbol**	**Measurement**	**Source(s)**
Firm performance (Dependent variable)	*EPS*	Earnings Per Share measured as net income divided by number of outstanding shares	Zraiq & Fadzil (2018)
Audit committee independence (Independent variable)	*ACIND*	Measure as number of independent directors held in audit committee	Rahman,Wickramasinghe & Nathan (2014); Gabriela (2016)
Audit committee expertise (Independent variable)	*ACEXP*	Measure as number of members with financial/accounting knowledge present in the audit committee	Rahman,Wickramasinghe & Nathan (2014); Yazan (2019)
Audit committee meeting(Independent variable)	*ACMT*	Measure as number of meetings held by audit committee members	Rahman,Wickramasinghe & Nathan (2014); Yazan (2019)

Source: Researcher compilation 2021

ULR: https://doi.org/10.37745/ejaafr.2013

EMPIRICAL RESULTS AND DISCUSSION OF FINDINGS

Descriptive Statistics

Table 1: Descriptive Statistics

	EPS	ACIND	ACEXPT	ACMT
Mean	121.9379	0.434196	0.937500	3.392857
Median	52.63000	0.500000	1.000000	4.000000
Maximum	1216.000	0.710000	2.000000	8.000000
Minimum	-251.0000	0.000000	0.000000	0.000000
Std. Dev.	223.3891	0.159739	0.633612	1.538439
Skewness	2.154734	-2.076975	0.049195	-0.662137
Kurtosis	9.014425	6.086990	2.498494	4.376078
Jarque-Bera	255.4758	124.9957	1.218880	17.02069
Probability	0.000000	0.000000	0.543655	0.000201
Sum	13657.04	48.63000	105.0000	380.0000
Sum Sq. Dev.	5539198.	2.832328	44.56250	262.7143
Observations	112	112	112	112

Source: Researcher compilation 2021

Table 1 presents the descriptive statistics of the dependent and independent variables. The descriptive statistics as presented in the table, shows the summary of an eight year mean and standard deviations for the variables employed in the study. The outcome gotten from the descriptive statistics presents an average mean value for EPS as 121.94, with minimum and maximum values of -251 and 1216 respectively, and a standard deviation value of 223.39, which indicates the level of dispersion of EPS from the mean across the selected banks. Similarly, the table presents a mean value of 0.5 with respect of ACIND, and a standard deviation value of 0.16. Also, the mean value of ACEXPT from the table is 0.938, while its standard deviation value is 0.634. In the same vein, ACMT from the table shows a mean value of 3.393, and a standard deviation value of 1.54. The Jarque-Bera (JB) statistics indicates that only ACEXPT data series have normal distribution. This is mirrored in the probability value of JB statistics which for most series are significantly different from zero at 1% levels of significance while other distributions are all leptokurtic in nature having more values greater than average with peaked curve as presented in the kurtosis table.

Regression Analysis

Table 2: OLS Regression Result

Dependent Variable: EPS
Method: Panel Least Squares
Date: 01/30/21 Time: 23:25

Sample: 2011 2018
Periods included: 8
Cross-sections included: 14

Total panel (balanced) observations: 112

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.22277	58.99521	0.173281	0.0428
ACIND	0.1471	215.8901	1.274477	0.2452
ACEXPT	0.66808	38.19174	1.248125	0.2347
ACMT	0.99275	19.85060	3.072590	0.0027
R-squared	0.833587	Mean dependent var		121.9379
Adjusted R-squared	0.818964	S.D. dependent var		223.3891
S.E. of regression	213.2208	Akaike info criterion		13.59759
Sum squared resid	4910018.	Schwarz criterion		13.69468
Log likelihood	757.4653	Hannan-Quinn criter.		13.63699
F-statistic	4.613113	Durbin-Watson stat		2.512957
Prob(F-statistic)	0.004464			

Source: Researcher compilation 2021

From the table 2. The probability values for two of the independent variables i.e. ACIND and ACEXPT are insignificant at 5% level, because their P-values of 0.2452 and 0.02347 respectively are more than 0.05, while the probability value of ACMT is significant at 1% since the P-value of 0.0027 is less than 0.05. This shows that they have no significant effect on the dependent variable Earning Per Share (EPS). The result serves as a basis for accepting the null hypothesis. This implies that audit committee independence (number of nonexecutive directors in the audit committee) and those with financial experience has no significant effect on performance (EPS) of firms listed under Food and Beverage Industry in Nigeria Stock Exchange. While ACMT i.e. Audit Committee Meetings has a p-value of 0.0027, which is significant, indicating that it has significant effect on firm performance (EPS). Therefore, the study discards the null hypothesis, which states that audit committee meetings has no significant effect on EPS of listed firms under Food and Beverage industry in Nigeria Stock Exchange. This implies that number of audit committee meetings held in a year has significant effect on performance (EPS) of firms listed under Food and Beverage Industry in Nigeria Stock Exchange. The coefficient results for ACIND, ACEXPT and ACMT show that audit committee independence, audit committee financial expertise, and audit committee meeting has positive effect on firm performance measured by EPS.

R-squared which is the co-efficient of determination or measure of goodness of fit of the model, tests the explanatory power of the independent variables in any regression model. The regression result shows that the R-squared and adjusted R-squared values were (0.83) and (0.81). This indicates that all the independent variables jointly explain about 81% of the systematic variations

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

in performance in terms of earning per share across the listed firms sampled in this study and over the period under review. leaving the remaining 19% which would be accounted for by other variables outside the models as captured by the error term.

F-statistics measures the overall significance of the explanatory parameters in the model, and it shows the appropriateness of the model used for the analysis while the probability value means that model is statistically significant and valid in explaining the outcome of the dependent variables. The F-stat. value of 4.6131 with p-value of 0.0044 which is significant at 5% level indicate that the model formulated for the study is appropriate.

The Durbin-Watson test is used to check for auto-correlation amongst the independent variables. The rule says that a Durbin-Watson value of 2 and above shows a negative correlation, while the farther away i.e. the lesser the value of Durbin Watson from 2, the more positively correlated the variables are. Therefore, based on the value (0.5) indicated in the table, it could be deduced that the variables are not auto-correlated.

SUMMARY OF FINDINGS

This study examined the effect of audit committee attributes on performance of firms listed under the food and beverages industry in Nigeria Stock Exchange and the following were found at the 5% level of significant:

1. Audit Committee Independence has positive but insignificant effect on performance of firms listed under the food and beverages industries in Nigeria Stock Exchange
2. Audit Committee financial expertise has positive but insignificant effect on performance of firms listed under the food and beverages industries in Nigeria Stock Exchange
3. Audit Committee number of meetings has positive and significant effect on performance of firms listed under the food and beverages industries in Nigeria Stock Exchange

CONCLUSION AND RECOMMENDATION

This study scrutinized the effect of audit committee characteristics on firm's financial performance. Having reviewed the extant literature on audit committee characteristics and firm's financial performance, the study has been carried out using secondary data gathering and observations were made. From analyses, it was found that two out of three proxies of audit committee characteristics used in this study that is audit committee independence and audit committee expertise exhibit positive but insignificant effect on performance (EPS) of registered companies on Nigerian Stock Exchange (NSE).These findings are consistent with previous studies that found a positive relationship between audit committee independence, audit committee financial expertise and firm performance (Aanu, Odianonsen & Foyeke, 2014; Al-Mamun et al, 2014). However, this finding is in contrast with the finding of Mohammed, Flayyih, Mohammed and Abbood (2019) who failed to establish any relationship between audit committee knowledge and performance. While audit committee meeting exhibit positive and significant relationship with EPS of listed companies on the Nigerian Stock Exchange (NSE). Even though audit

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013

committee meeting has positive and significant effect on firm performance as supported by Zraiq and Fadzil (2018). This study negates previous findings that there is a significant negative relationship between audit committee meeting and firm performance of (Rahman, Meah & Chaudhory, 2019; Aanu et al, 2014).

This study reached a conclusion that firm performance is improved by audit committee characteristics. One important and major implication of this study is that, audit committee members with number of nonexecutive directors in the audit committee and audit committee members with financial expertise do contribute positively though insignificantly to the financial performance of firms. Based on the findings, this study therefore recommended that firm should sustain frequencies of audit committee meetings, so as to ensure that the committee has enough time to take decisions that are efficient and effective in ensuring better firm performance. This study also recommends that regulatory bodies should ensure that audit committee are made more effective by ensuring that members includes independent non-executive directors and also ensure that more members with financial expertise especially accounting expertise be drafted into the audit committee to improve performance of firms.

References

Abbott, L. J., Parker, S., & Peters, F. (2004). Audit committee characteristics and restatement. *Auditing: A Journal of Practice and Theory, 23*(1), 69-87.

Abdul Rahman, R., & Haneem M. A. F. (2006). Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial Auditing Journal, 21*(7), 783-804.

Abeysekera, I. (2010). The influence of board size on intellectual capital disclosure by Kenyan listed firms. *Journal of Intellectual Capital, 11*(4).

Aldamen, H., Duncan, K., Kelly, S., McNamara, R., & Nagel, S. (2012). Audit committee characteristics and firm performance during the global financial crisis. *Accounting & Finance, 52*(4), 971-1000.

Al-Mamun, A., Yasser, Q. R., Rahman, M. A., Wickramasinghe, A., & Nathan, T. M. (2014).
Relationship between audit committee characteristics, external auditors and economic value added (EVA) of public listed firms in Malaysia. *Corporate Ownership & Control, 12*(1), 899-910.

Aanu, O. S., Odianonsen, I. F., & Foyeke, O. I. (2014). Effectiveness of audit committee and firm financial performance in Nigeria: an empirical analysis. *Journal of Accounting and Auditing: Research and Practice, 2014*(2014), 1-12.

Bansal, N., & A. K. Sharma. (2016). Audit committee, corporate governance and firm performance: empirical evidence from India. International Journal of Economics and Finance, 8(3), 103.https://doi.org/10.5539/ijef.v8n3p103.

Beasley, M. S., Carcello, J. V., Hermanson, D. R., & Lapides, P. D. (2000). Fraudulent financial reporting: Consideration of industry traits and corporate governance mechanisms. *Accounting Horizons, 14*(4), 441–454.

Blue Ribbon Committee. (BRC) (1999). *Report and recommendations of the blue ribbon committee on improving effectiveness of corporate audit committees*. New York Stock Exchange and National Association of Securities Dealers.

Bouaine, W., & Hrichi, Y. (2019). Impact of audit committee adoption and its characteristics on financial performance: evidence from 100 French companies. *Accounting and Finance Research*, *8*(1), 92-102.

Cadbury Committee. (1992). *Report of the committee on the financial aspects of corporate governance: A code of best practice*. London.

Contessotto, C., & R. Moroney. (2014). The association between audit committee effectiveness and audit risk. *Accounting & Finance*, *54*(2), 393-418. https://doi.org/10.1111/acfi.12010

Core, J.D. (2010). Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics,51*(3). 371-406.

Dakhlallh, M. M., Rashid, N., Abdullah, W. A. W., & Al Shehab, H. J. (2020). Audit committee and Tobin's Q as a measure of firm performance among Jordanian companies. *Journal of Advance Research in Dynamical & Control Systems*, *12*(1). 28-41.

Davidson, W.N., Xie, B. and Xu, W. (2004). Market reaction to voluntary announcements of audit committee appointments: the effect of financial expertise. Journal of Accounting & Public Policy, *23*,279-293.

DeZoort, F.T & Salterio, S.E. (2001).The effects of corporate governance experience andfinancial reporting and audit knowledge on audit committee members' judgments. *Auditing*, *20, 31-47*.

Dinu, V., & Nedelcu (Bunea), M., (2015). The relationship between the audit committee and the financial performance, the asset quality and the solvency of banks in Romania. *Transformations in Business and Economics*, *14*(35), 161-173.

Eichenseher, J. W., & D. Shields. (1985). Corporate director liability and monitoring preferences. Journal of Accounting and Public Policy, 4(1), 13-31. https://doi.org/10.1016/0278-4254 (85)90010-9

Emeka-Nwokeji, N. A., & Agubata, S. N., (2019). Board attributes and corporate performance: Evidence from nonfinancial firms in Nigeria. *The Asian Institute of Research Journal of Economics and Business*, *2*(2), 205-217.

Fort, T. L., & Schipani, C. A. (2000). Corporate governance in a global environment. *Vanderbilt Journal of Transnational Law*, *33*, 829-840.

Freeman, R. E. (1984). Strategic Management: A stakeholder approach. Boston: Pitman.

Gurusamy, P. (2017). Board characteristics, audit committee and ownership structure influence on firm performance of manufacturing firms in India. International Journal of Business and Economics Research, 6(4), 73-87.

Ibida, N. J. F., & Emeka-Nwokeji, N. A. (2019). Effect of corporate social responsibility (CSR) on financial performance of oil and gas companies in Nigeria. *Journal of Accounting, Business and Social Sciences*, *2 (1)*, 56-73.

Ida G. & Asunka B. A. (2016). The effect of audit committees on the performance of firms listed on the Ghana stock exchange. *IOSR Journal of Business and Management (IOSR-JBM)*, *18*(11), 55-62.

Iswatia, S., & Anshoria, M. (2011). *The influence of intellectual capital to financial performance at* insurance companies in Jakarta Stock Exchange (JSE), Proceedings of the 13th Asia Pacific Management Conference, Melbourne, Australia.

Kalbers L.P., & Fogarty T.J (1998). Organizational and economic explanations of audit committee oversight. *Journal of Managerial Issues, (10)*, 129-151.

Kallamu, B. S., & N. A. M. Saat. (2015). Audit committee attributes and firm performance: Evidence from

Malaysian finance companies. Asian Review of Accounting, 23(3), 206- 231 https://doi.org/10.1108/ARA-11-2013-0076

Klein (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics.33* (3), 375.

Kyereboah-C. A. (2008). Corporate governance and firm performance in Africa: A dynamic panel data analysis. Sabanci University, Istanbul, Turkey, 11.

Lin, A. (2012). Audit Committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, 33(3), .375-400.

McMullen, D. (1996). Audit committee performance, *Auditing*, 15, pp. 87-103.

Menon, K., & J. D. Williams. (2014). The use of audit committees for monitoring. Journal of Accounting and Public Policy, 13(2),121-139. https://doi.org/10.1016/0278-4254(94)90016-7

Mohammed, B. H., Flayyih, H. H., Mohammed, Y. N., & Abbood, H. Q. (2019). The effect of audit committee characteristics and firm financial performance: An empirical study of listed companies in Iraq stock exchange. *Journal of Engineering and Applied Science*, *14*(4), 4919-4926.

Mohd AMN (2007) *The effect of implementation of Malaysia code of corporate governance* (MCCG) 2007 on corporate governance attributes and financial performance. University Utara Malaysia.

Mohiuddin, M., & Karbhari, Y. (2010). Audit committee effectiveness: A critical literature review. Journal of Business and Economics, 9(3), 97-125.

Morrissey, O. (2011). Did the World Bank drive tariff reforms in Eastern Africa? *World Development, 39* (3), 324-335.

Okaro, S. C., & Okafor, G. O. (2013). Drivers of audit failure in Nigeria- Evidence from Cadbury. *Research Journal of Finance and Accounting*, *4*(6), 14–17.

Orjinta, H. I. & Ikueze N. E. (2018). Effect of audit committee characteristics on performance of non-financial firms: Evidence from a recessed economy. *International Journal of Innovation and Studies,24* (1). 289-298.

Qeshta, M. H., Alsoud, G. F. A., Hezabr, A. A., Ali, B. J., & Oudat, M. S. (2021). Audit committee characteristics and firm performance: Evidence from the insurance Sector in Bahrain. *Revista Geintec-Gestao Inovacao E Tecnologias*, *11*(2), 1666-1680.

Qanureshi, M.A. (2007). System dynamics modelling of firm value. *Journal of Modelling in Management.* 2(1), 24-39.

Rahman, M. M., Meah, M. R., & Chaudhory, N. U. (2019). The impact of audit characteristics on firm performance: an empirical study from an emerging economy. *The Journal of Asian Finance, Economics, and Business, 6*(1), 59-69.

Rahmat, M. M., Iskandar, T. M., & Saleh, N. M. (2009). Audit committee characteristics in financially distressed and non-distressed companies. *Managerial Auditing Journal, 24*(7),624–638.

Rateb M. A. (2018). Audit committee effectiveness and company performance: Evidence from Jordan. *Accounting and Finance Research, 7*(2), 48-60.

Riahi-Belkaoui, A. (2003). Intellectual capital and firm performance of us multinational firms: A study of the resource – based and Stakeholder Views. *Journal of Intellectual Capital,* 4(2), 215-261.

Saleh, N. M., Iskander, T. M. & Rahmat, M. M. (2007). Audit committee characteristics and earning management: evidence from Malaysia. Asian Review of Accounting, *15*(2), 147-163

Securities and Exchange Commission. (2003). *Nigerian code of corporate governance*. Retrieved from http://sec.gov.ng/files/CCGFORPUBLICCOMPANIES.

Sujatha, N., Muninarayanappa, M. & Sathyanarayana. (2017). a role of audit committee and its impact on firm performance in India, *International Journal of Development Research,* 7, (10), 15862-15865.

Sultana, N. Singh, H.,Mitchell , J., Zahn , V. (2015). Audit committee characteristics and audit report lag. *International Journal of Auditing, 2*(19), 72-87. https://doi.org/10.1111/ijau.12033.

Treadway Commission. (1987). *Report of the national commission on fraudulent financial reporting*. American Institute of Certified Public Accountants. New York.

Vlaminck, N., Sarens, G, N. (2015). The relationship between audit committee characteristics and financial statement quality: evidence from Belgium**.** *Journal of Management Governance, 1*(1), 145-166. https://doi.org/10.1007/s10997-013-9282-5

Oroud, Y. (2019). The effect of audit committee characteristics on the profitability: Panel data evidence. *International Journal of Economics and Finance*, *11*(4), 104-113.

Yeh, Y. H., Chung, H., & Liu, C. L. (2011). Committee independence and financial institution performance during the 2007-08 credit crunch: Evidence from a multi-country study. *Corporate Governance: An International Review*, *19*(5), 437–458.

Zábojníková, G. (2016). The audit committee characteristics and firm performance: Evidence from the UK. Masters Dissertation. Assessed on 28th October 2021 from https://repositorio-aberto.up.pt/bitstream/10216/84439/2/138239.pdf

Zraiq M. A. A, & Fadzil F. H. B. (2018). The impact of audit committee characteristics on firm performance: Evidence from Jordan. *Scholar Journal of Applied Sciences and Research, 1*(5), 39-42.

https://www.eajournals.org/
ULR: https://doi.org/10.37745/ejaafr.2013