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Impact of Audit Characteristics and External Auditor Quality on Financial Performance of Quoted Money Deposit Banks in Nigeria

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Abstract

This study is motivated and directed to investigate the effect of audit characteristics and external audit quality on the financial performance of money deposit banks quoted in the Nigeria Exchange Group (NEG). Thirteen publicly quoted banks of NEG have been selected as samples for this study. Data from the sampled banks have been collected from annual reports from 2015 to 2021. Pooled Ordinary Least Square (POLS) model was used for running the regression model of this study. The findings, audit committee financial expertise (ACFE) has a positive and significant relationship with ROA and ROE. However, Audit Committee Financial Expertise (ACFE) has a positive and insignificant relationship with EPS. On the other hand, Audit Committee Size (ACS) has a positive and significant relationship with ROA, which implies that the higher the audit committee

size, the more ROA in Nigeria. External Audit Quality has a negative and significant relationship with EPS and ROA and a positive and insignificant relationship with ROE. Among all variables of the audit characteristics, the role of audit committee financial expertise has a consistent result in this study. This has given an insight that the fair appointment of audit committee members who are knowledgeable in finance contributes to the financial performance of quoted money deposit banks in Nigeria. The role of External Auditors' quality in contributing to the financial performance of money deposit banks is not convincing in the context of Nigeria. We recommend that policymakers make it mandatory that only financial experts should be appointed as members of the Audit Committee of corporate bodies.

Keywords: Audit Characteristics, Corporate Governance, Banks, Financial Performance

1. Introduction

A firm's profitability remains one of the major criteria for assessing its well-being and knowing whether it will be able to meet the financial obligations of all interested parties. It is also an indication of the possible payment of dividends. The firm's managers are saddled with the responsibility of maximizing the wealth of the principals (the owners of the firm). The agents, also, owe a commitment to other stakeholders who are also concerned with the financial health of the firms (Ibrahim & Ombaba, 2019) ^[1]. The firm's continuous survival, growth, and expansion hardly be met without a sound financial performance.

The quest to optimize the wealth of the company in the face of stiff competition, globalization, and technological advancement; competition is triggered by the entry of small and young firms into the market space posing a threat to bigger existing corporate bodies (Bouaine & Hrichi, 2019) ^[2]. The expectations of the firm owners concerning financial performance remain high despite the unfavourable business environment. However, to ensure the continuous performance of firms, corporate governance mechanisms such as audit committee characteristics and ownership structure struggles to actualize the expected goals of the organization. Among the corporate governance structure is the audit committee which plays an important function in ensuring the conducive running of the business operations (Martionov-Bennie, Soh & Tweedie, 2015) ^[3]. In cognizance of the recent failures of corporate entities such as SVB, Signature, and First Republic Banks that were audited by the Big4 auditors (Financial Times, 2023), and the communication role of the audit committee in liaising between the management and external auditors on one hand, and between agents and principals on the other hand (Sarapaivanich, Ekasingh, Sampet & Patterson, 2023) ^[50]; it is glaring that audit committee is facing challenges as it performs its role.

The audit committee as one of the corporate governance structures has raised the hope of various stakeholders for effective and

efficient corporate governance thereby encouraging better financial performance of companies. However, the confidence in the duties of the audit committee on the assumed monitoring role of making sure that the board of directors does the work in line with the expectations of achieving the pillars of corporate governance, fairness, accountability, transparency, and responsibility. But the incessant corporate scandal in Nigeria and other countries of the world has cast doubt on the effectiveness of audit committees in carrying out this role (Financial Times, 2023; Dauda 2019^[4]; Ifeanyichukwu & Ohaka 2019^[5], Umobong & Ibanichuka, 2017^[6]).

Many times, the audit committee is composed of various knowledgeable members that have diverse experiences and different areas of specialization that are dearly needed for the achievement of the corporate goals. The primary functions of audit committee members require all the members to be financially literate in managing the financial activities in the ever-globally changing business environment. No wonder professional and competent managers are engaged to manage the shareholder's fund (Oudat, Ali & Qeshta, 2021)^[7]. As a matter of principle, corporate governance is put in place to ensure the successful running of the organizations. The conflict of interest between the managers and owners leads to inefficient management of the firms (Ahmed & Ombaba, 2019)^[8].

Several types of research have been carried out on audit committee structure and financial performance and found that audit structure has a significant effect on financial performance. (Bhagat and Bolton, 2008; Yahaya, *et al.*, 2020; Ifeanyichukwu & Ohaka, 2019; Dauda, 2019; Nwabochoi, 2019; Umobong & Ibanichuka, 2017)^[9, 10, 5, 4, 19, 6]. However, Interestingly, there is a gap in accounting literature on whether audit committee structure (audit committee financial expert and audit committee size) affects financial performance with the moderating role of the external auditor (Big4 auditors).

Our study responds to the call for future studies to be carried out on an industry basis to have a piece of specific knowledge on the trend from one industry to another to paint a meaningful comparison of the whole picture of audit committee structure and performance in Nigeria. (Eseoghene & Oghenevwoaga, 2021)^[11]. Hence, the study is focused on the banking industry with a specific interest in money deposit banks.

Globally corporate governance culture is challenged by the frequent failure of companies. In Nigeria in particular some corporate bodies are on the verge of collapsing due failure of corporate governance culture. The failure to be accountable and responsible has been an issue of concern to stakeholders (Yahaya, Mohamad & Noor, 2020)^[10]. The problem cannot be easily divorced from the culture of corruption and lack of institutional capacity to implement the codes of conduct governing corporate governance because company executives enjoy an atmosphere of lack of checks and balances in the system to engage in gross misconduct since investors are not included in the governing structure (Olayinka, 2019)^[12].

Despite the good structure and laid down rules by the various authorities (the Securities and Exchange Commission for public companies and that of the Central Bank of Nigeria for Banks) saddled with the management and implementation of these rules, the audit committee seems to be facing serious challenges. Thus, it should appear

as straightforward that identifying and analyzing those factors (determinants) that influence performance is of great relevance both to practice and academia. Companies are governed by the boards of directors, both executive and non-executive. It is logical to suppose that the managerial abilities of the board of directors would have a significant impact on the entity's performance. It is however not clear-cut whether certain audit committee structures regarding its composition would significantly influence the company's performance.

Hence, the study, therefore, is to the impact of audit committee structure and external audit quality on financial performance (proxied by return on asset, return on equity, and earnings per share), with the view of closing the existing knowledge gap which seemed to be obvious in the accounting literature.

2. Literature Review

2.1 Conceptual Framework

2.1.1 Concept of Audit Committee Characteristics

An audit committee is one of the committees under a corporate governance structure that is made up of shareholders and non-executive directors responsible for mediating between the external auditors and the Board of Directors on one hand, and between management and the external auditors on the other hand (Oroud, 2019)^[13]. Audit Committees are the most important recent development in the corporate governance structure and are expected to contribute significantly in this respect (Awwad, Norfodzilah & Abdullah, 2020). Azam and wang (2021)^[14] opine that committee members should possess qualities such as integrity, dedication, and a thorough understanding of the company's business. Moreover, the composition of the Audit Committee (AC) and how they exercise their governance and oversight responsibilities have a major impact on the overall internal control mechanism of a company.

The concept of an audit committee is not new in the accounting literature. Many scholars have defined the concept, it is referred to as a committee comprising appointed members who are active participants in the oversight function, supervising the accounting and financial disclosure of practices of companies (Kibiya, *et al.*, 2016; Nwabochoi, 2019)^[15, 19]. The audit committee is an essential element that helps to sustain a firm's transparency. The members of the audit committee are part of the board of directors and adjourned to be knowledgeable in terms of formulating strategies that contribute to the financial health of the firms (Bhardwaj & Rao, 2015)^[18]. The duties of audit committee members enshrined various laws of the country. These laws include the Stock exchange law of 2003, which was modified in 2011, Banking Law No. (28) 2000 that mandates all Nigerian banks to form audit committees (Arens *et al.*, (2009)^[20].

The relationship between audit committee characteristics and financial performance has been reported to be significant and positive (Dauda, 2019; Ifeanyichukwu and Ohaka, 2019; Nwabochoi, 2019; Yahaya, *et al.*, 2020); Ifeanyichukwu & Ohaka, 2019; Dauda, 2019; and Nwabochoi, 2019)^[4, 5, 19, 10, 5, 4, 19]. However, there is also evidence that audit committee characteristics do not influence the financial performance of companies (Ormin, Tuta & Shadrach, 2015^[17]; Nahla, Hasnah & Mazrah, 2019). There are diverse features of audit committee which include audit committee size, audit committee financial

expertise, audit committee independence size, diligence, and frequency of meetings (Yahaya, *et al.*, 2020^[10]; Nahla, *et al.*, 2019; Chukwu & Nwabochi, 2019^[16]; Abdul Rauf, Johari, Sharifa & AbdRahman, 2012^[22]). In our present study, we measured audit committee characteristics via financial expertise and audit committee size on one hand while external auditor quality was proxied by audit firm size which has been used by extant studies (Umobong & Ibanichuka, 2017; Dauda, 2019; Yahaya, *et al.*, 2020; Ifeanyi-chukwu & Ohaka, 2019; Dauda, 2019)^[6, 4, 10, 5, 4].

Audit Committee Size

Audit committee size refers to the number of members of the committee. The audit committee size is one of the audit dimensions recognized to be vital for the efficient functioning of the committee (Al-Okaily & Naueihed, 2020; Sultana, Singh, & Van der Zahn, 2015)^[23, 24]. Kallamu & Saat, (2015)^[26], and Al-Sa'eed & Al-Mahamid (2011) noted that several corporate governance reports have recommended a minimum of three board directors to be members of the audit committee. Hence, Kallamu & Saat, (2015)^[26] argued that having a large number of audit members will enhance the organizational status and authority. While Nwabochi (2019)^[19] pointed out that as a result of a larger audit committee, a wider knowledge base will come to bear on the activities. On the other hand, proponents of smaller audit committee sizes argued that having a larger committee size can have a consequence such as process losses and diffusion of duties (Kibiya, *et al.*, 2016)^[15]. But, Section 359 of CAMA states that audit committee members in Nigeria should not be more than six. Surprisingly CAMA did not specify the minimum number that should form the committee. According to Ormin, Tuta & Shadrach (2015)^[17], accounting and finance positively respond to larger audit committees due to an increase in the committee's monitoring, control, and oversight functions. In line with the view of Ormin *et al.*, (2015)^[17], Musa, Oloruntoba, and Oba (2014)^[29], reported that large-size audit committees have the potential to protect and control the process of accounting and finance by bringing in greater transparency. A very large audit committee can bring about dispersion of responsibility and process losses Ormin, Tuta & Shadrach (2015)^[17]. Therefore, we state the first hypothesis thus:

H1: Audit committee size significantly affects the financial performance of quoted money deposit banks in Nigeria

Audit Committee Financial Expertise

The audit committee function involves assessing and evaluating the elements of the corporate ethical environment, financial information, regulatory compliance, and internal control and information systems. Thus, the carrying out of these essential duties requires the financial literacy of the members. The adequate and effective execution of the saddled responsibilities of members of the audit committee requires commensurate expertise knowledge and qualification. This implies that to be a member of an audit committee may be based on having accounting or finance knowledge. Some regulatory bodies have suggested what should be the least of financial experts' members of the audit committee. BRC recommended at least one member. In our context, financial expertise is acquired through experience gained from past employment that has to do with finance or accounting, requisite

professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a CEO or other senior officer with financial oversight responsibilities. Krismiaji, Aryani, and Suhardjanto (2016)^[30], cited that 35 per cent of audit committees did not include an accountant, while a third of audit committees lacked a lawyer. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, passed by the US Congress in response to the then savings and loan scandals, requires that audit committees in banking institutions should have at least 2 members with banking or related financial management expertise and have access to outside legal counsel (Awwad, Norfodzilah & Abdullah, 2020).

The issue of financial expertise for at-least one audit committee member was first recognized under Section 359 (3) and (4) of the CAMA. This was further re-echoed in the SEC Code of 2011. Bouaziz (2012) found that "audit committee financial expertise has a significant impact on returns on equity and return on asset". Based on the above evidence, a positive relationship between audit committee financial expertise and firm financial performance is expected. Hence, we state the second hypothesis thus:

H2: Audit committee financials significantly impact the financial performance of quoted money deposit banks in Nigeria.

External Audit Quality

Audit quality means how well an audit detects and reports material misstatements in financial statements. The detection aspect reflects auditor competence while reporting reflects ethics. Audit quality has continuously escaped an exact definition that may be universally applied in all circumstances. Dresdner & Fischer (2020)^[32] while explaining this opines that it (audit quality) is more of a 'concept' rather than a 'term'. Knechel (2016)^[33] posits that it is hardly observable but may be measured. Christensen, *et al.* (2016)^[34] describe the concept from two (2) perspectives, namely auditors and investors, each listing preferred attributes before an audit engagement can be christened as qualitative. These among others are compliance with GAAS, accurate and reliable financial statements, efficient audit planning, etc. (auditors); training skills, competency, independence, etc. (investors). However, one of the most frequently used definitions is that offered by DeAngelo (1981) cited in Soyemi, *et al.* (2017) as 'the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system and (b) report the breach'. While the latter is referred to as auditor expertise, the latter is known as auditor independence. Whereas a generally acceptable definition seems difficult, there is a consensus on measures used in extant literature. According to Gana & Lajmi (2011)^[36] cited in Riguen, *et al.* (2018) these measures among others include auditor size (auditor type), audit opinion, audit lag, audit specialization, audit tenure, and audit experience. The choice of audit specialization as a measure of audit quality for this study is a result of the paucity of studies where such was adopted. Therefore, there is a growing trend among scholars (Sari, 2018); (Badawy & Aly, 2018); (El-Deeb & Hegazy, 2016)^[38] on the use of audit specialization alongside its association with the provision of excellent and quality audit

services to clients. Unlike other measures of audit quality, audit specialization adopts the market share of auditors' industry specialists using total assets as the basis.

Audit quality is a basic ingredient in enhancing the credibility of financial statements to users of accounting information (Wallace, 2004). The audit function plays a crucial role not only in monitoring managerial actions but also to create a better information environment as well as providing a secondary source of assurance against corporate failures. Nasrudin, *et al.* (2017)^[39] identify three (3) external enforcers of good governance namely auditors, corporate advisers, and regulators. Therefore, auditors are required to give appropriate assurance through their opinions on whether the firms' annual accounts have been properly drawn up and in compliance with approved standards, and if they portray a true and fair view of the firm's affairs.

Audit Firm Size

Theoretically, the reputation of the big4 auditors is a driving force for performing quality audits. In terms of facility and capacity, they have more experienced manpower to execute audit exercises. The audit firm size is one of the determinants of audit quality, hence there is a positive relationship to the audit quality. However, Sari, (2018) pointed out two main assumptions that stand as limitations to the choice of using audit firm size as an alternative to measuring audit quality. The increase in earnings management can be abated by a reputed audit firm such as any of the BIG4 auditors (Okpara, Okotume & Odubuasi, 2023)^[47]. Based on this review, we state thus:

H3: External audit quality significantly impacts the financial performance of quoted money deposit banks in Nigeria

Concept of Financial Performance

Herly and Sisnuhadi (2011), documented that when conceptualizing performance, one has to differentiate between an action (that is behavioural) aspect and an outcome aspect of performance. According to them, the behavioural aspect refers to the consequences or results of the individual behaviour. The outcome aspect describes behaviour that may result in outcomes such as the number of engines assembled, sales figures, etc. Based on this, financial performance is defined as subjective measures of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It can also be referred to as the business-independent criteria to assess its overall outcomes about goals.

Al-Matari, Al-Swidi & Fadzil (2014)^[40], regarded the concept of performance as controversial issues in the financial strategy of most corporate organizations due to its multi-dimensional meanings. According to Al-Matari *et al.*, (2014)^[40], performance measures are either financial or organizational. Financial performance such as profit maximization, maximizing profit on assets, and maximizing shareholders' benefits are core measures of firms' effectiveness (Maina & Oluoch, 2018)^[41]. Operational performance measures such as growth in sales and growth in market share provide a broad definition of performance as they focus on the factors that ultimately lead to financial

performance (Kabayah, Nu'aimat, & Dahmash, 2012).

Similarly, Heng and San (2011) advanced other ways of measuring corporate performance which are productivity, profitability, growth, or even customer satisfaction. Additionally, Wahla, Shah & Hussain, (2012) opined that financial measurement is one of the tools which indicate the financial strengths, weaknesses, opportunities, and threats. These financial measurements according to them include Return on Investment (ROI), Residual Income (RI), Earnings per Share (EPS), dividend yield, Price Earnings Ratio (PER), and book value per share. Etc. However, the most commonly used performance measure proxies are Return on Asset (ROA), Return on Equity (ROE), or Return on Investment (ROI). These performance measures proxies are termed accounting measures. There are other measures of corporate performance called market performance measures such as the ratio of price per share to the earnings per share (P/E), Market value of equity, and Tobin's Q. All these can also be referred to as the financial measures of performance.

Firm performance is critical to the economic well-being of the owners and the overall economy. For instance, Al-Matari, *et al.*, (2014)^[40] analyzed the concept of performance and its measurement from a traditional perspective, where they regarded the term as an element of the planning and control cycle that captures performance data, enables control feedback, and influences work behaviour. The concepts of performance revolve around monitoring and strategic implementation. It's mainly underpinned by a financial perspective. Generally, performance measurement plays a key role in the development of strategic plans and evaluating the achievement of organizational objectives and serves as a signalling and learning device (Herly and Sisnuhadi, 2011). Chalaki, Didar & Riahezhad (2012), regarding the company's present and future performance, opined that performance can be seen from many variables, such as stock price performance, reported earnings, or market share of a firm. According to them, investors are keen on the stock return and upward trend in the stock return, which attracts investors towards investment in a stock that will further raise the demand in the stock market and will lead to increasing stock prices and performance of the stock market. Al-Matari, Al-Swidi & Fadzil (2014)^[40], opined that there are many measures of performance based on non-financial information as not all activities of an enterprise are capable of being expressed in monetary terms, and financial statements only are not adequate to measure all aspects of performance. According to him, the non-financial measures of performance: are staff turnover, training time per employee, number of production stoppages through strikes, absenteeism, and accidents, number of complaints received, number of customers and suppliers, output per employee, production lead time, adherence to quality and product quality.

Return on Assets

Return on assets indicates the profitability of the assets of the firm after all expenses and taxes (Wahla, Shah & Hussain, (2012). It is a common measure of managerial performance and how much the firm is earning after tax for the money invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how the bank can convert its assets into earnings (Chalaki,

et al., 2012). Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and a lower ratio is the indicator of inefficient use of assets. Firms can increase ROA either by increasing profit margins or asset turnover. ROA is calculated as under:

$$\text{ROA} = \text{Net Profit after Tax} / \text{Total Asset}$$

As a performance measure, ROA has generally considered a good internal management ratio because it measures profit against all the assets an organization uses to make those earnings. Hence, it is a way to evaluate the organization's profitability, performance, and effectiveness. ROA provides good information about a firm's financial performance in terms of using assets to create income. It shows the percentage of profit that a corporation earns from its overall resources. Thus, it is considered as a measure of efficiency too. ROA is generally seen as a stable financial performance ratio, an increase in which is a sign of good performance.

Return on Equity

Return on equity weighs the rate of return for ownership investment returns (investors capital) of common stock owners, it checks the efficiency of a company's generation gains from each unit of shareholders equity also known as net assets. Return on equity (ROE) or also often called return on equity, in Bahasa Indonesia is often translated as Rentability of Own Share (Rentability of Own Capital). Investors to buy the shares will be attracted to this profitability ratio or part of total profitability that can be allocated to shareholders. As known, shareholders have a residual claim on obtained profits. The profit obtained by the company firstly will be used to pay any interest on debts, then preference shares, and then (if any) will be given to common shareholders. Return on equity (ROE) is the profitability ratio to measure the company's ability to generate profit based on share capital owned by the company (Heng & San, 2011).

Earnings Per Share

Earnings Per Share (EPS) is a management tool to measure the amount of profit that can be divided between the shareholders, the ratio is the comparison of resulted income (Net profit) and the amount of circulated shared EPS showing the company's ability to earn profits and distribute earned profit to shareholders. EPS can serve as an indicator of the company's value level, it also measures the success of a shareholder (Annisa & Nasaruddin, 2019). Earnings Per Share can be regarded to be one of the greatest benchmarks for financial performance as it also plays a critical role in making strategic decisions like share valuations, mergers, and acquisition decisions. Earnings per Share gives a clear financial picture of how a company is about its shareholder therefore there can be a comparison between a larger company's profit per share and a smaller company's profit per share. The calculation of EPS is largely influenced by the number of outstanding shares thus a large company will split earnings amongst multiple shares of stock in comparison to a smaller company. The research findings of Solomon *et al.* (2016) show that EPS impacts positively on the value of the company, the findings of this study prove a significant relationship between accounting data and the company's equity sake however, research results

(Nuradawiyah & Susilawati, 2020) shows that EPS negatively affects firm value.

EPS is calculated thus;

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net profit after Interest \& Tax}}{\text{Number of Circulated Share}}$$

2.2 Theoretical Framework

The theoretical framework adopted for this research is to investigate the impact of audit committee characteristics and external audit quality on the financial performance of quoted money deposit banks in Nigeria.

Agency Theory

The separation of ownership and control in modern business creates conflicts of interest between managers and stakeholders. Following this conflict between the principal and the agent, companies are obliged to use control mechanisms to reduce agency costs and information asymmetry like the audit committees (Oudat, Ali & Qeshta, 2021) [7]. Similarly, Nor, Nawawi & Salin, (2018) [48] argue that audit committees are used primarily in situations where agency costs are high to improve the quality of information flows from the agent to the principal. According to the agency theory, to ensure the effectiveness of an audit committee, managers are encouraged to prepare financial statements adequately to specify the return generated by the companies.

Bahaa *et al.*, (2019), based on the agency theory provide for the existence of a positive and significant relationship between the presence of an audit committee and the quality of financial statements. Similarly, Oudat, Ali & Qeshta, (2021) [7], based on the agency theory, find a positive relationship between the existence of an audit committee and the reliability of financial statements. The agency theory states that the presence of an audit committee within the board of directors is sufficient to ensure the reliability of financial statements. However, Bahaa *et al.*, (2019) concluded that the mere presence of an audit committee does not necessarily mean that this committee is effective in performing its oversight role.

The Institutional Theory

In addition to work focused on agency theory, many types of research on audit committees have relied on an institutional perspective (Ahmad and Amran, 2016) [15]. The principle of institutional theory is defined by the fact that an organization consists of cultural, social, and symbolic that constitutes its broader institutional environment (DiMaggio & al, 1983). The adoption and the operation of audit committees were discussed based on this perspective to the extent that it suggests that the audit committee can influence and be influenced by a multiplicity of agents (Azam and wang, 2021) [14].

Similarly, Azam and wang (2021) [14], state that this perspective can enhance the role of professional bodies and the promotion of regulatory audit committees. In this regard to better perform the function of monitoring and control efficiently, some authors Koutoupis and Bekiaris (2019) have stressed the importance of certain characteristics related to the members that form the audit committee.

Likewise, Ahmad and Amran (2016) [15], provide that the audit committee's main task is "to ensure the relevance and consistency of the accounting policies adopted for the

consolidated financial statements and the company's social and verifies that the internal procedures for collecting and monitoring information guarantee them. In the same furrow, Nwabochi, (2019) ^[19] states that the audit committee has the ultimate aim of defending the interests of investors and reducing agency problems of companies characterized by informational asymmetries. In addition, Nwabochi, (2019) ^[19] showed that the audit committee is an effective body to protect the interests of shareholders and ensure the reliability of information disclosed.

2.3 Empirical Review

Gupta and Mahakud (2021) ^[49] examined the impact of various audit committee (AC) characteristics on the financial performance of commercial banks. The study used a panel data approach for the period 2009-2010 to 2016-2017. The study reported that professional financial education of the Audit Committee Chairman and Members positively affects bank performance while Audit Committee meetings and audit chairman business have a negative relationship with the financial performance of the bank.

I. Oudat, Ali & Qeshta, (2021) ^[7], investigate the association of AC characteristics and financial performance among services sector corporation-listed in the Bahrain Stock Exchange. The corporations listed on the Bahrain Stock Exchange for the period from 2012 to 2019 are examined. The linear panel regression method was employed. However, the AC characteristics represented by ACFEXP, ACIND, ACSIZE, and ACFM are proxies for the independent variables and ROA, ROE, and EPS are proxies for financial performance as the dependent variables. Corporations' size, leverage, and age are examined as control variables. The results of the study reveal that there is a significant relationship between ACIND, ACMEET, FSIZE, and performance (ROA, ROE, and EPS). There is no statistical significance between the ACFEXP, ACSIZE, FAGE, and performance (ROA, ROE, and EPS), the LVRGE have an impact on EPS but not on ROA, and ROE.

Similarly, Azam and wang (2021) ^[14] study the influence of the characteristics of the AC on the firm value of listed non-financial firms in Palestine. Secondary data collected from a list of companies were registered in the Palestine Stock Exchange from 2011 to 2018. The study's sample size was 34 companies and used an expo-facto research design. Individual variables considered are the independence and expertise of the audit committee, whereas the ROA is employed as the dependent variable as an indicator of a firm's value. The study controlled for industry type and firm leverage. The results showed that the audit committee's independence and expertise are substantially positive with ROA and for the control variables there is a positive relationship between leverage, and industry type with ROA.

On the other hand, Ashari and Krismiaji (2020) ^[31], investigate the effect of AC characteristics, which includes independence (ACIN), size (ACSIZE), competence (ACCO), and frequency of meetings (ACMT) on the financial performance (PERF) measured and proxy with the return on assets (ROA) of manufacturing firms listed on the Indonesian stock exchange for the year of 2016 and 2017. The study uses the non-probability sampling (purposive sampling) method to choose samples and the samples are retrieved from 662 listed manufacturing companies' population listed data is obtained from the Indonesian capital market directory (ICMD) and the website of the

sampled company. The study also uses three control variables, which are the quality of auditors (BIG4), financial leverage (LEV), and company size (SIZE). The study finds that all of the characteristics of AC positively affect the company's performance and the control variables BIG4 and LEV affect the company's financial performance, while the financial performance of the company is negatively affected by SIZE.

From the context of Palestinian non-financial listed companies, Musallam, (2020) provided evidence of the effect of audit committees on corporate performance. The study covered a period of 17 years spanned from 2010-2016 using a generalized least square method. The study revealed that audit committee financial expertise positively and significantly influences corporate performance.

Al-Okaily and Naueiled (2020), empirically investigated the relationship between audit committee characteristics and financial firm performance. The study took cognizance of the moderating effect of family ownership and investment. The study deployed a two-way fixed effects model and documented that audit committee characteristics of size, experience, and meeting frequency are positively and significantly related to non-family firms' performance. On the hand, the independent variables were insignificantly related to family firm performance.

In addition, Awwad, Norfodzilah & Abdullah (2020), find out the impact of AC on the financial performance of listed companies in Jordan and the sample comprises 115 companies, 690 observations, listed in ASE for the period from (2010-2015). The study uses AC independence, AC size, AC meetings, and AC expertise as proxies for AC characteristics and ROA and ROE as proxies for financial performance. Based on statistical analyzes, and the results of the study size of AC and financial experience and meetings it significantly affects ROA. But the independence of the committee is an insignificant effect on the ROA. And also, the result of the size of AC has a significant negative impact on the ROE. As for the committee's meetings, there is no significant effect on the ROE. In general, the AC has an important effect on the financial performance of companies, as whenever these committees are highly efficient and effective and are bound by the terms of governance, the performance of companies (ROA and ROE) is of high quality. In an attempt to establish the effect of AC characteristics on financial performance between the period of 2011-2016,

Ahmed and Ombaba (2019) ^[8], considered banking and insurance firms listed in the Nairobi securities exchange, Kenya. The study was guided by agency and stakeholder theories and adopted an explanatory research design. Using a census sampling design, a total of 20 banking and insurance firms were included in the study. The study used secondary data collected through extraction from financial reports. Data was coded and thereafter analyzed using the statistical package for social sciences (SPSS) program and presented using tables. The study employed descriptive and inferential statistics in data analysis. The results indicated a significant positive influence of AC independence and AC financial expertise on the financial performance of Nairobi-listed banks and insurance companies. This can be interpreted to mean that the number of independent AC and financial experts should be higher for a company to report better performance. Moreover, in Nigeria,

Olayinka (2019) ^[12], examines the relationship between AC and firms' performance in Nigerian banks. The data were sourced from the annual reports and accounts of eight banks in Nigeria for 2011-2015 independent variables proxy are the size of AC, the frequency of meetings of AC, and the financial literacy of AC members while profit before tax was the dependent variable. The data were analyzed using ordinary least square (OLS) regression and the EViews software package was used. The findings of this study revealed that AC effectiveness has no significant effect on firms' performance in Nigeria. This implies that the AC as an integral part of the board is not affecting the performance of these banks in Nigeria during the study period. Furthermore, in Nigeria,

Osemene and Fakile (2019), aim to find out how the effectiveness of an AC impacts the financial performance of listed deposit money banks in Nigeria. Return on equity (ROE) is used to measure financial performance, independence, financial expertise, and frequency of meetings to proxy AC characteristics. Correlation and ordinary least squares (OLS) regression were used to estimate the relationship between AC characteristics and financial performance. Findings revealed that AC financial expertise and AC meetings significantly influence deposit money banks' financial performance except for AC independence which is negatively significant. The study used secondary data which from the annual reports of the selected banks for a period of five years from 2013 to 2017 using 9 banks out of 21 by random sampling technique. A study of 51 listed industrial firms in the Amman stock exchange, Pakistan to investigate the relationship between AC characteristics (size, independence, meeting, and financial expertise) and profitability for the period of five years (2013 to 2017).

Oroud (2019) ^[13], is theoretically founded on both the agency theory and the resource dependence theory. To examine the developed model, the data were gathered from the annual reports of the firms. Based on the panel data results, the fixed-effect model was used to examine the effect of the experimental variables on profitability, measured by return on investment (ROI) and return on equity (ROE). The results show that the AC characteristics have a significant effect on the profitability of the industrial companies listed on the ASE.

In the same vein, Ali and Amir (2019) analyze the impact of AC structure on the firm value of listed cement companies in Pakistan which covers a period of 4 years from 2013 to 2016 data from 14 cement companies. AC structure was measured by AC size, AC meetings, and AC independence which is jointly measured in a composite manner, the dependent variable is a firm value measured by Tobin's Q and the control variables include firm growth, firm size, and firm leverage, and lastly big4 audit firm. The outcome of the study from the fixed effect approach shows that there is a significant negative impact of AC structure on financial performance measured by Tobin's Q. The results of 100 French companies listed on the Paris stock exchange from 2007-2015.

Bouaine and Hrichi (2019) ^[2], show that the establishment of the committee has no significant effect on the company's performance. The independence of the AC hurts the performance measured by ROE and ROA. It's explained by the high professional fees asked from independent members of the board which has a negative impact. Furthermore, the

study concluded that the size, the financial expertise, and the diligence of the audit committee have no impact on the financial performance of listed French companies when the performance is measured by ROE on the other side, the size and diligence of AC have a negative impact on performance. Saleh, Tahervafaei & Tangghi (2018), examined the effect of the characteristics of audit committees and boards on corporate profitability in Iran. The study considered companies listed on the Tehran stock exchange (TSE) and covered a period that spanned from 2010 to 2015 using the liner panel regression method. The independent variable used in the study is audit committee size, audit committee expertise, board size, and chief executive officer (CEO) duality. Salehi *et al.*, (2018) reported only audit committee financial expertise had a positive and significant relationship with corporate profitability.

Alqatamin (2018) ^[28], investigate the effect of AC characteristics on the company's performance. The sample consists of 165 non-financial companies listed on the Amman stock exchange (ASE), Pakistan over the period 2014-2016. The results of the study show that the AC 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. The results of the study could be beneficial for managers and boards in making suitable choices about AC characteristics and CG mechanisms to enhance the company's performance. Using the triangulation approach in Kenya,

Maina, and Oluoch (2018) ^[41], examine the effect of corporate AC characteristics on the financial performance of manufacturing firms. The study adopted agency, institutional, and stewardship theories. The research design for the study was descriptive. This study focused on 766 manufacturing firms in Kenya for a period of 5 years, 2013-2017. The study used Krejcie and Morgan's sampling technique to calculate the sample size. Primary information was accumulated by employing a structured questionnaire. On the other hand, secondary information was gathered from the financial reports. Content validity was adopted to establish whether the research instruments can give answers to the study questions. Multiple linear regression analysis was used to show the effect of AC composition and frequency of meetings on the financial performance of manufacturing firms in Kenya. The study concludes that there exists a significant relationship between AC composition and AC meeting frequency and the firm's financial performance.

Another study by Orjinta and Evelyn (2018) ^[52], examines the effect of AC characteristics on the performance of selected non-financial firms quoted in the Nigerian stock exchange. A sample of 50 listed firms was used for the period 2007 to 2016. The study was predicated on ex post facto and cross-sectional research design and used secondary data for the analysis. The data collected were analyzed using descriptive statistics, Pearson correlation analysis, and ordinary least square regression. The result revealed that there is a significant positive relationship between AC independence, AC meeting, and firm performance at a 5% level of significance while a positive significant association was also recorded against AC size and return on assets but at a 10% level of significance while an insignificant and positive relationship was observed between audit committee qualification and return on assets

of non-financial firms in Nigeria. The findings show that 76% of changes in the performance of non-financial firms can be attributed to the audit committee characteristics while 24% were unaccounted for and hence captured by the stochastic error term.

Zraiq and Fadzil (2018) [44], attempted to contribute to the debate by examining the association between AC and firm performance of the Jordanian firms. Using OLS regression to test the relationship between the independent variable and dependent variable. The data comprised 228 firms in industrial and services. The findings indicated a positive direction but insignificant relationship between AC size and ROA, whereas, AC size with EPS has a positive direction and significance. Furthermore, the result shows AC meetings have a significant and positive direction with ROA. Correspondingly, AC meetings with EPS represent a positive direction but are insignificant.

2.4 Knowledge Gap

From the foregoing, the empirical study results on audit committee structure and financial performance link have never agreed, as some determined a positive correlation, some studies determined a negative correlation, while others determined no correlation at all with the majority of the results with positive correlation and this may be as a result of proxies of financial performance used in the previous studies. The current study also observed that audit committee characteristic and external audit quality (which is an attribute of good governance) reduces information asymmetry between the agent and the principal and this led to a reduction in agency cost as a result that some investors may be willing to invest in companies with good governance and thus lead to lower cost of capital and in long run increases performance.

3. Methodology

This chapter encompasses the methods and procedures deployed in the sourcing of data that aid in solving the research problem. The chapter covers the research design model significance as well as the techniques of data analysis.

3.1 Research Design

This study employs an ex-post facto design. The ex-post facto design is the type of study involving events that have already taken place. The data for the study already exists as no attempt is made to control or manipulate any of the variables. Pooled ordinary lead square (POLS), is used.

3.2 Population of the Study

The population of the study is made up of quoted money deposit Banks in Nigeria Exchange Group.

3.3 Sample Size and Sampling Techniques

The elimination process is undertaken based on several criteria. The following money deposit Banks are quoted in Nigeria. Exchange Groups were excluded. Those that were listed after 2014 and those that are not in operation up to 2021. Finally, those that do not have complete data were dropped (i.e., Banks must have consistently, submitted their annual reports to Nigeria Exchange Limited up to 2022). The data from the sample banks covered a period of 7 years from 2015 to 2021 and are transformed into specific attributes of the research variables for the number of years

for the study. The distribution of the population and sample size are presented in Table 1. Importantly, only Deposit Money Bank (DMBs) is included, to ensure that sample banks face homogenous investment activities and financing methods.

Table 1: Showing the Number of Banks and Criteria for inclusion in the Sample

S. No	Names of Banks	Year of Listing	In operation up to 2022	Data Complete	E/I
1	Access	2010	YES	YES	I
2	Fidelity	2005	YES	YES	I
3	Signature	2020	YES	NO	E
4	Diamond	2009	NO	NO	E
5	FCMB	2013	YES	YES	I
6	GTCO	2021	YES	NO	E
7	Stanbic	2012	YES	YES	I
8	Zenith	2004	YES	YES	I
9	UBA	1971	YES	YES	I
10	Sterling	2006	YES	YES	I
11	Unity	2006	YES	YES	I
12	Wema	1990	YES	YES	I
13	Union Bank	1971	YES	YES	I
14	Ecobank	2003	YES	YES	I
15	GTB	1996	YES	YES	I
16	FBN	1971	YES	YES	I

Source: Various Bank Annual Reports and Websites sources. Importantly, the data are not manipulatable not possible to directly manage or control any of the variables

Note: E= Eliminated from the sample size, I= included in the sample size

3.3.1 Model Specification

To test the relevance of the hypotheses regarding the examination of the impact of Audit committees and external Audits on the Financial performance of quoted money deposit banks in Nigeria, the study used Gupta *et al* (2021) model using ordinary least modified. The measurement of variables is shown in Table 2 square with a cross. Sectional data and as well as panel data techniques to test the association. Hence, the model for the research is specified thus:

Financial performance is a function of the Audit committee size, Audit committee financial expertise, and External Audit quality, the test models are as follows in equations 1, 2, and 3.

$$EPS_{jt} = \beta_0 + \beta_1 ACS_{jt} + \beta_2 ACS_{jt} + \beta_3 AFS_{jt} + e_{jt} \quad (1)$$

$$ROA_{jt} = \beta_0 + \beta_1 ACS_{jt} + \beta_2 ACS_{jt} + \beta_3 AFS_{jt} + e_{jt} \quad (2)$$

$$ROE_{jt} = \beta_0 + \beta_1 ACS_{jt} + \beta_2 ACS_{jt} + \beta_3 AFS_{jt} + e_{jt} \quad (3)$$

Where:

ROA_{jt} = Return on assets of Banks J at the fiscal year ended t

ROE_{jt} = Return on Equality of Banks j at the fiscal year ended t

EPS_{jt} = Earnings per share of Banks at the fiscal year ended t

ACS_{jt} = Audit Committee size for Bank j at time t (year ended t)

AFS_{jt} = Audit form size for Bank j at time t (year ended t)

e_{jt} = Error term

β_0 = Constant term
 $\beta_1, \beta_2, \beta_3$ = The regression coefficient for all the explanatory variables

Table 2: Measurement and Explanation of Variables

Dependent Variables	Abbr.	Measurement	Source
Financial performance (Proxied by Return on Assets Return on Equity Earnings per share)	ROA	Net profit after tax	Annual Report
	ROE	Total Assets	Annual Report
	EPS	Net profit after Interest & Tax	Annual Report
Independent variables		Number of Circulated Share	Annual Report
Audit Committee size Audit Committee Financial Expertise Audit Firm Size		Total No of members	
	ACS	No of the members have financial knowledge	Annual Report
	ACFE	During variables = 1 if the bank in year t is audited by one of the "big 4" and 0 otherwise	Annual Report
	AFS	if the bank in year t is audited by one of the "big 4" and 0 otherwise	Annual Report

4. Results and Discussion

In this section, the secondary data collected for the study were analysed. To understand easily, the data are presented using tables and showing descriptive statistics of minimum, maximum (frequency distribution), means, and standard deviations. The secondary data were analysed using descriptive statistics, Pearson correlation moment coefficient, multicollinearity test, and Pooled Ordinary Least Squared (POLS). The arrangement of the above and the summary of the main findings and discussion results are based on the stated hypotheses in chapter one of this study.

4.1 Analysis of the Relationship between Financial Performance and Audit Characteristics

In this section of the study, the descriptive statistics of summarized variables over the entire period of return on assets (ROA), return on equity (ROE), earnings per share (EPS) reaction to audit characteristics variables, results, and interpretations of POLS for financial performance reactions for the variables-return on assets (ROA), return on equity (ROE), earnings per share (EPS), audit committee size (ACS), audit committee financial experts (ACFE), and audit firm size (AFS)-are given below in Table 3.

Table 3: Descriptive Statistics

Variable	Mean	Stan. Dev.	Min.	Max.
ROA	0.8880	1.8061	-3.600	9.500

ROE	5.0542	8.3708	-2.700	32.05
EPS	7.7442	15.410	0.080	127.620
ACS	5.8681	0.3714	5.00	7.000
ACFE	5.3956	0.7728	3.000	6.000
AFS	0.9560	0.2061	0.000	1.000
Observed (91)				

Source: STATA OUTPUT (2023)

Note: ROA, Return on Assets; ROE, Return on Equity; EPS, Earnings per share; ACS Audit committee size; ACFE, Audit committee financial experts and Audit Financial Size

Table 3 reports the summary of three proxy variables for financial performance and audit characteristics variables of the entire period of the study (7 years). The average of ROA, ROE, and EPS are N0.88K, N5.05K, and N7.744K, respectively. The standard deviation for ROA, ROE, and EPS are N 1.806k, N 8.370k, and N 15.410k, respectively. This means that the ROA for instance can deviate from the mean to both sides by N1.806k. The highest ROA recorded is N9.5K in the year 2017, and the bank that had it was Unity Bank. On the other hand, the minimum ROA was N-3.6K and was recorded by Unity Bank in the year 2018. This implies a massive negative decline in Unity Bank's return on assets. Considering ROE, the maximum of N32.05K was recorded by GTB in the year 2018 while the minimum ROE of N-2.70K was reported in the year 2018 by Unity Bank. Also, Table 4 indicates that earnings per share (EPS) had a maximum of N127.62K in the year, 2017 for Unity Bank. Whereas, the minimum value for EPS was N0.08K which was reported by FCMB in the year 2017.

Further, from Table 3, the overall average of ACS is 5.86 with a standard deviation of 0.371. Audit committee size (ACS) and ACFE had a maximum of 7 and 6 respectively. With regards to the audit quality (proxy by audit firm size), the average was 0.9560. This implied that out of 100% of the 91 financial reporting years of the selected banks under consideration in this study, approximately 4% of the financial statement was audited by other audit firms that are not part of the 'Big 4' audit firms.

4.2 Pairwise Correlation Analysis

The Pearson Correlation Coefficients (PCC) in Table 4 indicates the positive and significant correlation between financial performance (return on equity (ROE), return on assets (ROA), and earnings per share (EPS)) and many variables of interest in this study. The return on equity (ROE) is significantly and positively related to only the audit committee financial expert (ACFE). In the same vein, audit firm size (AFS) is significantly and negatively correlated to earnings per share (EPS). On the other hand, other variables of interest were not significantly related.

Table 4: Correlation Matrix

		ROE	ACS	ACFE	AFS	ROE	ACS	ACFE	AFS	EPS	ACS	ACFE	AFS
ROE	r	1				1				1			
	p												
ACS	r	0.076	1			0.029	1			0.000	1		
	p	0.474				0.781				0.999			
ACFE	r	0.131	-0.10	1		0.250*	-0.010	1		-0.059	-0.010	1	
	p	0.216	0.927			0.017	0.927			0.580	0.927		
AFS	r	-0.115	0.110	-0.077	1	0.055	0.110	-0.077	1	-0.677*	0.077	0.110	1
	p	0.280	0.298	0.471		0.601	0.298	0.471		0.000	0.471	0.298	

Source: STATA OUTPUT (2023)

** Correlation is significant at the 0.01 level (2-tailed)

r= Pearson Correlation; p = significance level (P-value); ROA= Return on Assets;

ROE= Return on Equity; ACS= Audit Committee Size; ACFE=Audit Committee Financial Experts; AFS= Audit Firm Size

4.3 Multicollinearity Analysis

We carried out a check of collinearity. The study used a robustness check by carrying out a multicollinearity test using the variance inflation factor (VIF) and tolerance. Table 5 shows the result of the Variance Inflation Factor (VIF) and the Tolerance Value (TV).

Table 5: Variance Inflation Factor

Variables	1/VIF	VIF
ACFE	.988	1.012
ACS	.994	1.006
AFS	.982	1.018
MVIF		1.012

Source: STATA OUTPUT (2023)

Table 5 indicates that the test for Multicollinearity using the TV and VIF shows the absence of multicollinearity as all the tolerance values are below 1.0 and all the factors are below 5.

4.4 Results and Interpretation of the Relationship between Earnings Per Share and Audit Characteristics and Audit Quality

Table 6 above presents the summary of the Pooled Least Square (POLS) regression results of all applied variables in the analysis of model 1 of the overall period under consideration. This aimed at addressing the research problems stated in chapter one of this study. Table 6 shows the results of the POLS for the earnings per share (EPS) reaction to audit characteristics and audit quality variables. The result of model 1 revealed that the combination of audit committee size (ACS), audit committee financial experts (ACFS), and audit firm size (AFS) at a 1% level (p< 0.01) significantly explained variations in the earnings per share of quoted money deposit banks in Nigeria. The output of POLS reveals in respect of coefficient values that audit committee size (ACS) has a negative relationship with the earnings per share. The ACS had a beta coefficient of -2.1574 and a t-value of -1.6518 which is insignificant at 5% (p-value < 0.05). Audit committee financial expert (ACFE) and audit firm size had a coefficient value of 0.3211 and a t-value of 0.5076, and a coefficient value of -51.029 and a t-value of -21.451, respectively. However, only the Audit firm size was statistically significant at a 1% (p-value > 0.01) level of significance. This suggests a negative relationship between AFS and EPS.

The coefficient value measures the degree to which each of the explanatory variables (audit committee size, audit committee financial expert, and audit firm size) affect the

dependent variable (earnings per share). The result indicates that only audit firm size has a significant influence on the earnings per share. However, the combined explanatory power of ACS, ACFE, and AFS indicates Prob. F of 0.0000 (highly significant at 1 % level). F-statistics is a measure of the joint significance of all explanatory variables of the model used.

Table 6: Regression Result of Model 1 (Equation $EPS_{jt} = \beta_0 + \beta_1 ACS_{jt} + \beta_2 ACFE_{jt} + \beta_3 AFS_{jt} + e_{ij}$)

Results of Model 1: Earnings per share (EPS) Reaction to Audit committee size (ACS), Audit committee financial experts (ACFE), and Audit Firm Size (AFS)		
Dependent Variable: EPS		
Estimator	POLS Model (1)	
Variable	Coef	Prob
ACS	-2.1574 (-1.6518)	0.0991
ACFE	0.3211 (0.5076)	0.6119
AFS	-51.029 (-21.451)	0.0000
Cons	67.5164 (7.676)	0.0000
R ²	0.4610	
Adj R ²	0.4580	
F-statistics	154.54	
Prob. F	0.0000	
No of obser. 546		
Note: ** significant at the 1% level, * significant at the 5% level Numbers in parenthesis are t-values ACS= Audit committee size; ACFE= Audit committee financial experts; AFS= Audit firm size Personal; EPS= Earnings per share		

Source: STATA OUIPUT (2023)

4.5 Results and Interpretation of the Effect of Audit Characteristics and Audit Quality on the Return on Assets

For simplicity, the interpretation here is confined to the estimated regression model based on the Pooled Ordinary Least Square (POLS) model. From Table 8, the results of the investigation of the effect of audit characteristics value relevance in explaining variations in the return on assets of quoted money deposit banks in Nigeria indicated a mixed result. Thus, for example, audit firm size (AFS), the proxy variable for external audit quality negatively and statistically influenced the return on assets (ROA).

From Table 7, regarding the variable of audit committee financial interest (ACFE), ACFE had a coefficient of 0.3397 and a t-value of 3.4305, respectively. The relationship is

significantly positive at the 1% ($P < 0.01$) level. This shows that audit committee financial size significantly contributes to a higher return on assets of quoted money deposit banks in Nigeria. This finding provides supporting evidence for our conjecture (H): Audit committee financial expert significantly affects the return on assets of quoted money deposit banks in Nigeria.

On the other hand, Table 7 further revealed that coefficient and t-value of 0.3284 and 1.6039, respectively, for audit committee size (ACS). However, it is not significant at a 5% significance level.

Table 7: Regression Result of Model 2 (Equation 2 ($ROA_{jt} = \beta_0 + \beta_1 ACS_{jt} + \beta_2 ACFE_{jt} + \beta_3 AFS_{jt} + e_{ij}$))

Results of Model 2: Return on Assets (ROA) Reaction to Audit committee size (ACS), Audit committee financial experts (ACFE), and Audit Firm Size (AFS)		
Dependent Variable: ROA		
Estimator	POLS Model (2)	
Variable	Coef	Prob
ACS	0.3284 (1.6039)	0.1093
ACFE	0.3397 (3.4305)	0.0006
AFS	-1.0986 (-2.9504)	0.0033
Cons	-1.8279 (-1.3275)	0.1849
R ²	0.0385	
Adj R ²	0.0332	
F-statistics	7.240	
Prob. F	0.0000	
No of obser.	546	

Note: ** significant at the 1% level, * significant at the 5% level
Numbers in parenthesis are t-values ACS= Audit committee size; ACFE= Audit committee financial experts; AFS= Audit firm size Personal; ROA= Return on Assets

Source: STATA OUTPUT (2023)

4.6 Results and Interpretation of the Effect of Audit Characteristics and Audit Quality on the Return on Equity

Table 8 shows the summary of the Pooled Least Square (POLS) regression results of all applied variables in the analysis of model 1 of the overall period under consideration. This also aimed at addressing the research problems stated in chapter one of this study. The computed results using the POLS for the return on equity (ROE) reaction to audit characteristics and audit quality variables show a coefficient R-value of 0.7722 and t-value of 0.8224 for audit committee size (ACS), which indicates a strong association between ACS and return on equity (ROE). The relationship is significant at a 1% significance level (p-value= 0.0168). In cognizance of the audit committee financial experts (ACFS), at a 1% level ($p < 0.01$) significantly and positively explained variations in the return on equity (ROE) of quoted money deposit banks in Nigeria. The output of POLS reveals in respect of coefficient and t-values that the audit committee financial expert (ACFE) had 2.6738 and 5.905, respectively.

Furthermore, Table 8 shows that audit firm size has a positive relationship with the return on equity. The AFS had a beta coefficient of 1.2533 and a t-value of 0.7362 which is insignificant at 5% ($p\text{-value} < 0.05$). The coefficient value measures the degree to which each of the explanatory variables (audit committee size, audit committee financial

expert, and audit firm size) affect the dependent variable return on equity (ROE). The result indicates that both audit committee size and audit committee financial experts have a significant influence on the return on assets. The combined explanatory power of ACS, ACFE, and AFS indicates Prob. F of 0.0000 (highly significant at 1 % level). F-statistics is a measure of the joint significance of all explanatory variables of the model used. However, the R square is 0.064 which means explanatory variables used in this study only explain 6.4 percent of the variation in ROE.

Table 8: Regression Result of Model 3 (Equation 3 ($ROE_{jt} = \beta_0 + \beta_1 ACS_{jt} + \beta_2 ACFE_{jt} + \beta_3 AFS_{jt} + e_{ij}$))

Results of Model 2: Return on Equity (ROE) Reaction to Audit committee size (ACS), Audit committee financial experts (ACFE), and Audit Firm Size (AFS)		
Dependent Variable: ROE		
Estimator	POLS Model (2)	
Variable	Coef	Prob
ACS	0.7722 (0.8224)	0.0168
ACFE	2.6738 (5.905)	0.0000
AFS	1.2533 (0.7362)	0.4519
Cons	-15.1030 (-2.3992)	0.0168
R ²	0.064	
Adj R ²	0.059	
F-statistics	12.4412	
Prob. F	0.0000	
No of obser.		

Note: ** significant at the 1% level, * significant at the 5% level
Numbers in parenthesis are t-values
ACS = Audit committee size; ACFE= Audit committee financial experts; AFS= Audit firm size; ROA= Return on Equity

4.7 Test of the Research Hypotheses

This section focuses on testing of the research hypotheses stated in this study in their alternative form. The test was performed using t-statistics, and p-value, which informed the rejection or acceptance of each of the hypotheses.

4.7.1 Test Result for Hypothesis 1

H1: Audit committee size significantly affects the financial performance of quoted money deposit banks in Nigeria.

We used a multiple regression model based on the E-views computer software (version 12) to test the hypothesis. The data in Table 3 (Appendix 1) for the independent variables-audit committee size (ACS) was regressed on the data for the earnings per share (EPS), return on equity (ROE), and return on assets (ROA) (financial performance reaction). The specific aim was to establish the effect of audit firm size on the earnings per share, return on equity, and return on assets of the money deposit bank quoted on the Nigerian Exchange Group (NEG).

Decision Rule:

The decision is taken into consideration by the t-value and p-value. If the p-value is less than a 5% significance level ($p\text{-value} < 0.05$), we accept the hypothesis; otherwise, we reject and accept the null hypothesis.

The computed results of the model (Model 1) in Table 7, 8, and 4.7 show a mixed result about the effect of audit firm size on selected financial performance proxy variables in this study. ACS significantly and positively affects the

return on equity (ROE) of money deposit banks quoted in the Nigeria Exchange Group. The probability of ACS (p -value = 0.0168) < 0.05 and (T-value = 0.8224), which is significant at a 5% significance level (P -value 0.0613 < 0.05).

Decision:

Since the p -value (0.0168) < 0.05, the alternative hypothesis is accepted at 0.05 (5%) level of significance implying that, audit committee size significantly and positively affects the financial performance of quoted money deposit banks in Nigeria. The decision is based only on the return of equity variable and not the return on assets or earnings per share.

4.7.2 Test Result for Hypothesis 2

H2: Audit committee financials significantly impact the financial performance of quoted money deposit banks in Nigeria.

We used a multiple regression model based on the E-views computer software (version 12) to test the hypothesis. The data in Table 3 for the independent variables- audit characteristics were regressed on the data for the earnings per share, return on equity, and earnings per share (proxy variables for the measure of financial performance reaction). The specific aim was to establish the effect of audit committee financial experts on the financial performance of quoted money deposit banks in Nigeria.

Decision Rule:

The decision is taken into consideration by the t -value and p -value. If the p -value is less than a 5% significance level (p -value < 0.05), we accept the hypothesis; otherwise, we reject and accept the null hypothesis.

The computed results of the model (Model 1) in Tables 7, 8, and 4.7 revealed a significant and positive effect of audit committee financial experts (ACFE) on the return on equity (ROE) and return on assets (ROA) of quoted money deposit banks in Nigeria. The probability of ACFE (p -value = 0.000) < 0.01 and (T-value = 5.905) for ROE reaction, and p -value = 0.000 and T-value 3.4305 for ROA reaction, which is significant at a 1% significance level (P -value < 0.01).

Decision:

Since the p -value (0.000) < 0.01, the alternative hypothesis is accepted at 0.01 (1%) level of significance implying that, audit committee financial expert significantly and positively affects the financial performance of quoted money deposit banks in Nigeria through the proxy variables of return on equity and return on assets.

4.7.3 Test Result for Hypothesis 3

H3: External audit quality significantly impacts the financial performance of quoted money deposit banks in Nigeria.

Decision Rule:

The decision is taken into consideration by the t -value and p -value. If the p -value is less than a 5% significance level (p -value < 0.05), we accept the hypothesis; otherwise, we reject and accept the null hypothesis.

The computed results of the model (Model 1) in Tables 7, 8, and 4.7 indicate a significant and negative effect of audit firm size on the financial performance of quoted money deposit banks in Nigeria. The probability of AFS (p -value = 0.000) > 0.01 and, which is significant at a 1% significance

level (P -value 0.000 > 0.01). However, AFS showed an insignificant positive relationship with return on equity (ROE).

Decision:

Since the value of the t -calculated is higher than the t -tabulated value and the p -value is highly significant at a 1% level of significance, the alternative hypothesis is accepted at 0.01 (1%) level of significance implying that, audit firm size significantly and negatively affects the financial performance of quoted money deposit banks in Nigeria through earnings per share and return on assets.

4.8 Discussion of Results

In the previous section of this study, the data analysis was carried out. Several findings were made, in the course of the analyses. For clarity, this discussion of the results is done in cognizance of the reactions of the proxy variables for financial performance to audit characteristics used in this study. Therefore, based on the hypotheses of this study the following findings were identified and discussed.

Thus, the descriptive statistics indicate that the means of all variables under investigation are positive. The variables earnings per share showed wide variation around their mean. The result suggests volatile earnings per share returns. The average return on assets was very low. The result is the indication of inefficient use of assets (Chalaki *et al.*, 2012).

Considering our hypothesis (H1), the Audit committee size under investigation in this study affects the financial performance of quoted money deposit banks in Nigeria through return on equity. The finding disagrees with Oudat *et al.*, (2021) [7] and Bouaine & Hrichi (2019) [2], who reported no significant relationship between Audit committee size (ACS) and return on equity (ROE). The difference in results could be attributed to different sectors of the studies.

On the other hand, when the financial performance of the selected money deposit banks was measured with return on assets, our result revealed that the audit committee do not significantly explain variation in return on assets. However, the effect was positive, this result is in line with Zraiq and Fadzil (2018) [44], and Orjinta and Evelyn (2018) [52] who reported a positive direction but insignificant relationship between AC size and ROA. On the other hand, it contradicts the findings of Ashari and Krismiaji (2020) [31] and Bouani and Hrichi (2019), that return on assets (ROA) is negatively affected by size. In the same vein, the result disagrees with Awwad *et al.*, (2020), who documented that AC size significantly affects ROA.

When the performance was measured by EPS, our result revealed that audit committee size negatively influences EPS. But the impact is not statistically significant. The insignificant result reported by our study taking cognizance of EPS agrees with the finding of Qudat *et al.*, (2021) and disagrees with Zraiq and Fadzil (2018) [44] that AC size with EPS has a positive direction and is significant.

With regards to the results of the hypothesis (H2), it was revealed that Audit committee financial experts (ACFE) significantly positively impact the financial performance of quoted money deposit banks in Nigeria. This assumption was strongly upheld when financial performance was measured using ROA and ROE. This finding agrees with recent studies by Musallam (2020), and Gupta & Mahakud (2021) [49] that reported that professional financial education

of the audit committee chairman and members positively affects bank performance. Also, the results are in tandem with Azam and Wang (2021)^[14] and Awwad *et al.*, (2020), that audit committee expertise is substantially positive with ROA. Furthermore, our finding is in line with the study by Osemene and Fakile (2019), who stated that AC financial expertise significantly influences deposit money banks' financial performance. On the other hand, our result refutes the documentation by Bouaine and Hrichi (2019)^[2], Olayinka (2019)^[12], and Qudat *et al.*, (2021), that there is no statistical significance between ACFE and the performance (ROA and ROE). However, this study agrees on no significant relationship between the ACFE and EPS. Finally, the outcome of conjecture (H3), external audit quality significantly impacts the financial performance of quoted money deposit banks in Nigeria was surprising. It revealed a negative and significant relationship between the Big4 (AFS) and performance (when measured by EPS and ROE). However, AFS and ROA had positive directions but not significant ones. Our result negates the findings of Ashari and Krismiaji (2020)^[31], that Big4 positively affects the company's financial performance.

5. Conclusion

The study provides insight into the effect of audit characteristics and external audit quality on the financial performance of money deposit banks quoted in the Nigerian Exchange Group. Quoted 13 money deposit banks of Nigeria Exchange Group have been sampled for the study. The data analysis of Pooled OLS has been used for predicting the relationship between the predictor and predicted variables. The findings and analysis of the research show that the regression model used in this study confirms that there is a significant effect of audit committee characteristics combined effect on the performance of the company measured. Our findings reveal that all the audit committee attributes are collectively significantly associated with the financial performance variables. However, not all the variables of audit committee attributes are found significant individually to all the proxy variables for performance. Audit committee size was found to have a significant relationship with only return on equity. Audit committee financial expertise was found to have a significant relationship with both returns on assets and return on equity. While external audit quality had a significant relationship with earnings per share and return on assets.

6. Recommendations

Based on the findings and conclusion, the following recommendations are made:

1. The audit committee size should be increased to enhance its significant effect on the financial performance of quoted money deposit banks in Nigeria.
2. The fair appointment of audit committee members that are knowledgeable in finance should be prioritized by the regulator of the banking sector in Nigeria. We recommend that policymakers can make it mandatory that only financial experts should be appointed as members of the Audit Committee of corporate bodies.
3. The role of External Auditors' quality in contributing to the financial performance of money deposit banks is not convincing in the context of Nigeria. Building social trust should be vigorously pursued. Because in a society

where there is social trust, there will be no need for banks or other companies to engage expensive auditors.

4. Moreover, future research is recommended to further study the relationship between audit committee structure, including more variables.

7. Contribution to Knowledge

The banking sector of Nigeria experiences insider abuses in the form of mismanagement that have resulted in low profits for the banks hence some have gone out of business. The study provides insight into the effect of audit characteristics and external audit quality on the financial performance of money deposit banks quoted in the Nigerian Exchange Group. The study has provided empirical evidence on the importance of audit committee financial experts on the growth of Nigerian banks. The study equally contributes to the recent debate on audit structure's relationship with the financial performance of corporate bodies.

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