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Abstract: The paper examined the impact of Audit Committee qualities on the return on asset of companies quoted on the Nigerian Stock Exchange between 2003 and 2017. Data for this study were gathered from secondary sources and collated randomly from a sample of 20 companies’ annual reports out of the 112 non-financial companies listed on the Nigerian Stock Exchange for 15 years. The study made use of panel data analysis as the estimation technique to explore the stated objectives. Hausman test was employed as a post-estimation method to test for the appropriateness of fixed effect or random effect estimator. More so, diagnostic tests such as heteroscedasticity test and Breusch-pagan LM test of Independence were conducted to test for the variance of error and autocorrelation respectively. The results of the Hausman test revealed that the panel fixed effect model is the most appropriate estimator for this study. The findings of the fixed effect of the impact of the audit committee qualities on the return on assets revealed that financial expertise (FEX), audit committee meetings (AUM) and numbers of non-executive director on the audit committee composition (NENAU) have a negative and insignificant relationship with return on assets. The results of the analysis also showed a positive and significant impact of audit committee size (AU_SIZE) and total assets (TA) on the return on assets (ROA) of companies quoted on the Nigerian Stock Exchange. The overall result with the coefficient of determination is ($R^2=0.46$, $\chi^2=8.203$ $p<0.05$) which indicates that explanatory variables have fairly influenced the return on the asset as a measure of companies performance. Based on these findings, it was recommended that management of listed non-financial companies and the supervisory authorities should work hand in hand to review from time to time the expertise clause in the audit committee composition to improve the return on asset of the companies.

Keywords: Audit Committees, Corporate Performance, Corporate Governance, Audit Committee Qualities, Return on Asset and Financial Health.
1. Introduction

The credibility and quality of financial reporting have been solemnly considered in the Sarbanes-Oxley Act of 2002 (SOX Act 2002) as the duties and responsibility of the audit committee in a private corporate structure. The Act establishes some qualities or characteristics for the committee toward ensuring that the supplier of capital (shareholders), manager of capital (Director, Managers) and various stakeholders in the company can be fairly represented. That is, their aims and objectives can be reasonably harmonized towards a specific goal found or entrenched in the overall goals of the company.

The Audit committee roles are not visible or popular amongst the perceived stakeholders whose roles can easily be traced directly to parties that dictate the integrity and quality of financial reporting compared to the notable and popular ones like; accountants and auditors. Scholars in Accounting and related disciplines could be aware of the terms of reference of the audit committee and its roles in issues bordering on financial reporting integrity. This argument has, however, brought about various perceptions on auditors’ independence, audit and non-audit services fees and the executive director's contractual relationship with the auditing process and arrangement.

In the bid to provide practical and acceptable answers to these, the corporate governance culture has established standards by giving the audit committee directions to work with, which aimed at improving and ensuring reporting integrity, attracts an investor, ensuring compliance with established standards and upholding the culture of auditor’s independence. This study seeks to consider the qualities of the audit committee and how they influence or improve the return on an asset which is one of the corporate performance indicators in the selected non-financial companies in Nigeria.

Investors usually rely on financial reports to make decisions, and it is good to note that financial reports are standardized documents assumed to be free of fraud and manipulation, but news of accounting scandals remain commonplace in the media and these have had adverse effects on financial performance indicators and on the general goodwill which companies enjoy.

It is worrisome to note that the increase rate at which companies get delisted on the Nigeria Stock Exchange (NSE) based on voluntary closure, merger, acquisition, and compulsory closure is alarming. Between 2001 and 2018, (space of 18 years) 93 companies were delisted (NSE, 2018). In 2006, the accounting scandal reported in Cadbury Nigeria Plc was very shocking. The Chief Executive Officer (CEO) and Financial Officer (CFO) allegedly undermined corporate ethical standards by over-representing their company’s worth to mislead interested parties in the financial reporting (Okaro, Okafor, & Oraka 2014). Other scandals were also reported relating to the malfeasance of Chief Executive Officers such as in Doyin Group of Companies; City Express Bank and Societe Generale Bank (Bushmills Communications, 2012). Hence, with all these, one would assume that all these frauds perpetrated and corporate closure happens despite the presence of the audit committee to ensure checks and balances tinted/designed to protect financial reporting quality and integrity which however improves cost minimizations drives of corporate organisations and thereby increases profitability motives.


Furthermore, despite a few pieces of literature on the concept of an audit committee’s qualities and financial performance, there exist mixed results in the literature. Azim (2012), Muhammad, Suleiman and Sani (2017), discovered an insignificant negative relationship between audit committee members and financial performance among Nigeria listed firms. While Cheah, Chew, Kuan, Low and Poon (2016) revealed an insignificant positive relationship between audit committee size and firms performance; Modum, Robinson, and Edith (2013) found a positive relationship between the audit committee size and composition on corporate performance. While, Samoei and Lucy (2016), and Ahmed (2018), revealed an
 adverse but significant effects of audit committee experience and size on firms’ performance; Aldamen, Duncan, Kelly, McNamara, and Nagel (2012), Allam, Adel and Sameh (2013), Robin and Noor (2016), Rateb (2017) and Haiyan, Stephen and Anastasia (2018) found that audit committees’ size positively and significantly impacts firms’ performance. However, as regards these mixed results in the literature, it is imperative to examine how audit committee size has impacted the financial performance of listed non-financial firms on the Nigeria Stock Exchange to ascertain the facts.

Previous Studies, like Aldamen, Duncan, Kelly, McNamara, and Nagel (2012) in Netherland; Allam, Adel and Sameh (2013) in Jordan; Jeffey, Udi-Hoitash and Arnold (2014) in the United States; Ojeka, Iyoha and Obigbemi (2014) from Nigeria (focusing on manufacturing companies); Cheah, Chew, Kuan, Low and Poon (2016) in Malaysia; Gabriela (2016) in UK; Sameoi and Lucy (2016) in Kenya; Ali and Ali (2016) in Malaysia; Mhammad, Suleiman and Sani (2017), in Nigeria (focusing on food and beverages companies) found that audit committee expertise is positively and significantly related to firms’ performance. While Salau, Okpanachi, Yahaya and Dikki (2017), focusing on consumer goods companies in Nigeria found a positive but insignificant relationship between audit committee expertise and firms performance. Rateb (2017) in a study in Jordan found a negative and insignificant relationship between audit committees’ financial expertise and firms’ performance. From the details of literature, one would notice mixed results; besides, most studies carried out in Nigeria focus mainly on the financial sector. This study, as a result, sought to examine the impact of audit committee qualities on the return on asset of selected non-financial companies listed on the Nigerian stock exchange.

2. Literature Review

2.1 Audit Committee Qualities

The responsibility of monitoring the financial reporting process, the appointment of external auditors, review of companies and internal control processes are enforced in Nigeria by the CAMA Act of 1990 and the Security and Exchange Commission Act 2016. In lieu of previous literature on Audit Committee, four essential elements have been suggested to characterize it, namely; composition, authority, resources, and diligence (Dezoort, Hermanson, Archambeault & Reed, 2002).

The Sarbanes – Oxley Act (SOX Act, 2002), enacted in the United States has brought good initiatives to financial statement credibility and quality tailored towards improving the standards of businesses, as it emphasizes more responsibilities for the Audit Committee following the collapse of Enron in 2001.

The SOX Act’s requirements for Audit Committee include: pre-approval of audit and non-audit services in companies; received and review of auditors’ reports on relevant accounting policies; discussed with the management on preferred or alternative General Accepted Accounting Principle (GAAP) to use; preferences of auditor’s and the communication of materials information (or value) between the auditor and the Audit Committee and overseeing the external auditor engagement (Chan, Liu, & Sun, 2013).

The Act suggested rules for listed companies in the US in order to ensure that corporate collapses are forestalled and improvement on performance is witnessed; emphasizes the needs for the majority of members of the Audit Committee to be made of independent on executive Directors, either entirely independent outside directors or an entirely outside board directors.

As a result, studies like Jensen and Mechline, (1976); Dezoort, (1997); SOX (2002); Holder-Webb, Jeffrey, Leda and David, (2008) and Chan, Liu, and Sun, (2013) have identified some of the qualities of the audit committees to include Audit Committee Meetings, expertise of members of the committee, size of the committee, and non-executive directorship that makes their work to be imperative in the administration of the affairs of corporate entities.

2.2 Audit Committee Meetings

The meetings of the audit committee in public and private organization are generally timed to match the regulatory reporting. Typically, audit committees, are expected to meet three or four times a year (Wei &Thiruvadi 2010; FRCON, 2016). However, there exists a view that the number of meetings of the audit
committee members and the duration varies depending on the range and complexity of the committee’s responsibilities. Therefore, for audit committees to undertake their activities properly, it has been suggested that the committee may need to meet at least eight times a year to ensure adequate oversight of the organization’s quality assurance processes (Hamdan, Mushtaha & Al-Sartaw 2013). The Audit Committee meetings provide an avenue for the committee members and auditor to discuss issues bordering on the organization’s financial statements. The auditor would evaluate not only the compliance of the financial statements with the accounting standards but also express a judgment about the firm’s accounting choice of principles, disclosures, and estimates. This discussion would make directors more aware of issues that might require special attention and that would eventually improve the quality of the financial reports that tend towards improving performance indicators of the firm (Salleh, Stewart & Manson, 2006).

2.3 The expertise of the Audit committee
Audit Committee expertise as used in the study connotes the skills and knowledge of Accounting principles, Accounting practice, internal control and or of law acquired through learning and practices. Generally, findings revealed that there is a positive relationship between the presence of an audit committee and the firm’s financial reporting quality. For example, DeFond and Jiambalvo (1991) documented that overstatement errors in annual earnings are less likely among firms that have an audit committee. Independent studies provide evidence that expertise of the audit committee strengthens the audit function through the hiring of high-quality external auditors and protecting external auditors who issue “going concerns” opinion (Abbott, Parker & Peters, 2000; Carcello & Neal 2003).

2.4 Audit Committee size
The concept of the size of the audit committee has to do with the degree of the smallness and largeness of the membership of an audit committee. Committee size has been debated in regulations (FRCON, 2016; CAMA, 1990) and concerning countries’ jurisdiction to comprise three to a maximum of seven members. The regulations have since generated controversies on whether the size of the audit committee has impacted performance or not. Mrwan, Aiman, and Shehata, (2014) used Audit Committee size as a variable in a study on the impact of Audit Committee characteristics on company’s performance in Egyptian companies listed under stock exchange while ROE, ROA and Tobin’s Q (TQ) were used for proxy performance respectively. The study revealed that the higher the sizes of the audit committee, the lower the ROE and TQ. These assertions can be considered from the viewpoints of the remuneration payable to the committee members. However, Azim (2012) in his study proved that the audit committee’s size hurts the performance of the firm, but the study’s justification for the results faulted the governance inefficiency.

2.5 Non-Executive Director
A non-executive director is an external professional appointed on the board of a company. As a result, he comes to attend scheduled meetings. The presence of non-executive directors on the board committee, especially on the Audit Committee signals best and fair judgment of parties that have no stake in the business to ensure checks and balances of the executive so that total independence and interests of investors can be safeguarded and to ensure that the excessiveness of the executive directors are curtailed (Seema 2014; Shleifer & Vishing, 1997; Fama & Jensen 1983). Abbott and Parker (2000) thought that the Audit Committee constituted of entirely independent directors’ are more likely to hire industry specialists as external auditors.

Evidence emerged that the presence of non-executive (independent) directors on the Audit Committee board impact significantly on the financial performance of companies. However, this performance may not have a direct link, but when the running cost and scandals are ruled out in financial reporting, these will ensure that the running expense will be drastically reduced thereby increases the profitability of the company (Richard 2014; Cheah, Chew, Kuan, Low & Poon 2016).
2.6 Financial Performance (Return on Asset)

The term Financial or Corporate performance cannot be put into a tight framework of definition. It is a distinct phenomenon, that can be interpreted and measured in different ways. Different users from their point of views can evaluate from various angles and viewpoints. A financial analyst can judge performance from profitability and growth point of view. An economic planner can be concerned with the equal distribution of gains and wealth, besides the effective and efficient utilization of resources. A welfare economist will be concerned with the equal distribution of gains and wealth besides efficient utilization.

Gul, Faiza, and Khalid (2011) observed that from the national viewpoint, the various indicators of performance could be employment generation, research and development, health education and economic development. Moreover, different parties view performance differently. The shareholders’ are interested in profitability, whereas their management team is interested in the growth of the company. So, both dimensions namely; profitability and growth should be considered while analyzing the performance of a company.

2.7 The relationship between Audit Committees’ and Return on Asset

Accurate and unbiased financial information is the basis on which investment decisions are made. However, some organizations resort to window dressing or manipulation of financial data that do not depict the state of affairs of the financial position of the company. As a result, a body like an independent audit committee is required to preclude such unscrupulous activities, the presence of independent auditors goes a long way in ensuring that an investor’s trust (Corplaw, 2014; Lange & Sahu, 2014). The audit committee’s role is important in ensuring the potency of the internal control structure in place in the organisation (Nuryanah & Islam, 2011). It assesses the financial statements of a firm and performs the role of an intercessor among the board of directors, managers, external and internal auditors, and ensures transparency and proper flow of information (Bhardwaj & Rao, 2015).

It is opined that companies get additional advantage from investors when they voluntarily adopt corporate governance practices in addition to mandatory recommendations (Aggarwal, Erel, Stulz, & Williamson, 2006). Company’s efficient and transparent corporate governance is a key to boost profitability, desired growth, and stability of a company. Corporate governance has gained more prominence due to the competitiveness of businesses across the world, both nationally and internationally. Their expanded roles include; scrutinizing financial statements, evaluating investments and assets with a singular aim of improving the performance level (FRCON, 2016).

The relationship that exists between Audit Committee characteristics and company performance has been considered to be expressly relevant to the field of accounting because auditors have a responsibility to identify the actual position and value of a company in terms of income shown, assets and equity value as depicted by the financial statements (Nuryanah & Islam, 2011). The audit committee is considered vital in maintaining transparency in a company. The members of the Audit Committee are also part of the board of directors that are responsible for formulating strategies for improving the financial health of the companies. So, if the Audit Committee presents an accurate picture of financial statements to the members of the board of directors, the CEO, would be in a better position to draw effective strategies towards increasing the performance of the company (Bhardwaj & Rao, 2015).

2.8 Empirical Review

Aldamen, Duncan, Kelly, McNamara, and Nagel (2012) examined the characteristics of the Audit Committee and Firm Performance during the Global Financial Crisis. The study explored the S&P 300 companies listed on the Netherlands Stock Exchange. The study used panel data model as tools for analysis. The study found that smaller audit committees with relevant experience and financial expertise are positively associated with firms’ performance; accounting performance positively impacts audit committee members who have external directorship.

Modum, Robinson, and Edith (2013) investigated Audit Committees and corporate performance of selected quoted companies on the Nigerian Stock Exchange from 2006 to 2010. The study employed survey
design and OLS regression analysis for data analysis. It revealed a significant relationship between the audit committee size and composition on performance.

Mrwan, Aiman and Shehata (2014) examined the audit committee characteristics, and firm performance of fifty (50) listed Egyptian companies. The study gathered secondary data and analysis was done through generalized least square method (GLS) for a period of 9 years (2004 – 2012). The study found a positive relationship between the proportions of independent directors and the financial performance, board meeting shown a positive and significant relationship with financial performance and audit committee meetings shown a negative relationship with firms’ financial performance.

Cheah, Chew, Kuan, Low and Poon (2016) examined the relationship between Audit Committee characteristics and firm performance of publicly listed companies in Malaysia. Secondary data were employed, and Pearson Correlation and Multiple Linear Regression Analysis were used to analyse the collated data. The study found that a significant and positive relationship exists between the audit committee’s independence and financial performance; audit committee size and firms performance. It was also found that financial expertise of the audit committee members is significantly related to performance and that the audit committee busyness is positive but not significantly related to the performance of companies listed on the Malaysia Stock Exchange.

Robin and Noor (2016) researched on the relationship between audit committee characteristics and the performance of family-owned firms’ in Indonesia. The study sampled 122 family-controlled companies that were listed on the Malaysian stock Exchange from 2010 to 2014. The multiple regression analysis was adopted. The study revealed that positive relationships exist between audit committee size and firms performances and the audit committee independence has a negative relationship with the firms’ performance.

Sajjad, Engku, and Mourad (2017) researched the role of the audit committee on the performance of companies listed on the Pakistan Stock Exchange between 2012 and 2015 with a sample of 30 companies. The study employed secondary data and analysis were done through multiple regression and correlation. The results from the study revealed that the audit committee’s independence and meetings showed a positive and significant relationship to companies’ performance.

Gabriela (2016) examined the audit committee’s characteristics and firm’s performance of listed firms on the UK FTSE 100 Companies from 2011 to 2015. The study employed secondary data and descriptive analysis plus panel data regression for data analysis. The findings revealed that the audit committee’s financial expertise, audit committee size and frequency of meetings significantly impact firms’ performance of listed companies on the FTSE 100 in the UK.

Muhammad, Suleiman and Sani (2017) evaluated the effect of audit committee’s quality on the financial performance of the food and beverages industry in Nigeria for a period covering 2007 to 2016. The study employed secondary data. Correlation and structural equation modeling were used for data analysis. The results revealed a significant and positive relationship between audit committee meetings, audit committee financial expertise and financial performance and insignificant negative relationship exist between audit committee compositions and financial performance of the Nigerian food and beverages sector.

Ahmed (2018) examined the impact of audit committee characteristics on firms’ performance of seventy-four (74) listed non-financial companies on Jordanian Stock Exchange. The study employed panel data regression to analyse the data obtained for six (6) years (2010-2016). The study revealed that audit committee size and audit committee meetings are negatively and significantly related to performance while the proportion of non-executive directors on the audit committee is positively and insignificant to firms performance.

From the literature, studies have shown mixed results in terms of audit committees’ variables to companies’ financial performance, and the study of Muhammad, Suleiman, and Sani (2017) that was carried out in Nigeria focus on only one sector of the industries listed on the Nigerian Stock Exchange. Base on the preceding, this study seeks to focus on the impact of audit committee qualities on return on asset of companies quoted on the Nigerian Stock Exchange.
Figure 1.1 explained the concept of administering the day to day activities of companies which center on corporate governance that encompasses board and board committees’ which ensure strategic formulation of policies and monitoring. This study focuses on one segment of the board committee’s (Audit Committee) to examine its impact on performance. The audit committee qualities such as size, meetings, independence and expertise that symbolize best standards to measure it is effectiveness were assumed to have impacted the financial performance of the firm while considering the implications of total asset, leverage ratio, and accounting reporting standards. However, regulators like government and its establishments regulate and watch out to amend and monitor organizations’ practices to ensure that minimum best practices are sustained to assure continuity of the company and also, focus on the return they received majorly through taxes. Subsequently, investors’ perceptions differ as some have a direct focus on return on asset and little or no focus on corporate culture/ethics of the companies, while others may be more concerned with the sanity and sanctity of the organisational corporate culture/ethics compared to the returns on asset the organisation has reported for the period.

3. Methodology

The data for this study were gathered from secondary sources. The data were collated randomly from a sample of 20 companies’ annual reports out of the 112 non-financial companies listed on the Nigerian Stock Exchange for 15 years. Audit committee qualities and board characteristics were sourced from the reports of board committees of the respective companies and data relating to performance were sources from the financial statement of the companies.

This study adopted the model of Cheah et al. (2016) in their study of the relationship between Audit Committee characteristics and firm performance of publicly listed companies in Malaysia. As given in Equation 3.1
\[ FP = \beta_0 + \beta_1 ACIND + \beta_2 ACIZE + \beta_3 ACEXP + \beta_4 ACBUSY + \epsilon \] ..........Eq.3.1

Their model was modified as follows to test the hypotheses formulated in the study;

\[ ROA = F(\text{FE, CM, CS, AUDISC, NNED, FSZE, } \lambda) \] .........................Eq3.2

\[ \ln ROA_{it} = \alpha - \beta_1 FE_{it} + \beta_2 \ln CM_{it} + \beta_3 \ln CS_{it} + \beta_4 \ln NNED_{it} + \beta_5 \ln FSZE_{it} + \beta_6 \ln AUDISC_{it} + \beta_6 ST\_D_{it} + \beta_6 \ln TA_{it} + \beta_6 \ln LR_{it} \] .........................H .........................Eq3.3

### 3.1 Description of Variables

#### 3.1.1 Dependent Variables

\[ \ln ROA_{it} = \text{Natural logarithm of each company return on asset (ROA)} \]

#### 3.1.2 Independent Variables

- **FE**: the proportion of financial expertise on audit committee be Dichotomous with one (1) if any disclosure was made in the annual report or O otherwise.
- **CM**: the frequency of meetings held by the audit committee during a financial year.
- **ACS**: The proposition of persons that constituted the composition of the audit committee
- **NNED_AU**: the proportion of non-executive directors on the audit committee
- **NNED_B**: the proportion of non-executive directors on the firm’s board

#### 3.1.3 Control Variables

- **FSIZE**: the size of a company based on the natural logarithm of its total assets.
- **LEV**: Leverage position of the company measured by the ratio of long-term liability to its total assets.
- **ST\_D**: accounting standards used in reporting Dichotomous with 1 if IFRS or O otherwise

\[ \alpha_i = \text{intercepts} \]
\[ \beta_0 = \text{parameters} \]
\[ t = \text{Time. Dummy variables will be used for each year: 2002 to 2016.} \]
\[ i = \text{Standardized residuals of the error term.} \]

### 4. Results and Discussion

#### 4.1 Results of the Unit Root Tests

<table>
<thead>
<tr>
<th>Variables</th>
<th>T-STAT</th>
<th>P-VALUE</th>
<th>order of integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>4.42624</td>
<td>0.0000 ***</td>
<td>I(1)</td>
</tr>
<tr>
<td>TA</td>
<td>3.30990</td>
<td>0.0000 ***</td>
<td>I(1)</td>
</tr>
<tr>
<td>LR</td>
<td>6.07762</td>
<td>0.0000 ***</td>
<td>I(1)</td>
</tr>
<tr>
<td>NED_B</td>
<td>10.41270</td>
<td>0.0000 ***</td>
<td>I(1)</td>
</tr>
<tr>
<td>AU_M</td>
<td>8.18755</td>
<td>0.0000 ***</td>
<td>I(1)</td>
</tr>
<tr>
<td>AU_S</td>
<td>5.77141</td>
<td>0.0000 ***</td>
<td>I(1)</td>
</tr>
<tr>
<td>NED_AU</td>
<td>7.31190</td>
<td>0.0000 ***</td>
<td>I(1)</td>
</tr>
</tbody>
</table>

**SOURCE:** Authors’ Computation, 2019

(*** and **) represent statistical significance at 1% and 5% respectively. Each Model includes trend and Constant term.

The results in Table 1.1 indicated that all the cross-sectional time series variables attained its stationary at first difference (I(1)). It indicates that all the variables are integrated of Order I(1). The econometric implication of the variables stationary is that any disturbance or shock to it will not be sustained for an extended period. By implication, an innovative shock will only have short term effect over
time. Therefore, the properties exhibited by the time series variables in the model create the necessary condition for panel data.

4.2 Panel Data Analysis

Table 1.2 and 1.3 measured the impact of financial expertise (FE), committee meeting (CM)), size of the Audit committee (CAU_C), non- executive director on the board (NNED), size of the firm(FS), size of audit committee (AUDISC), accounting standards (STD), total asset (TA) and leverage ratio (LR) on return over total assets (ROA). In an attempt to arrive at the most consistent and efficient estimates, the study conducts unrestricted panel analyses including fixed effect and random effect panel estimation followed by post-estimation tests. Hence, the results for the estimations are presented in separate tables for individual analysis, before concluding the most consistent and efficient estimator.

4.3 Impact of Audit Committee Quality on Return on Asset of Firms

Table 1.2- Fixed effect Parameter Estimate (Cross-Sectional Specific)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>T-Test values</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.207507</td>
<td>2.282071</td>
<td>-0.53</td>
<td>0.597</td>
</tr>
<tr>
<td>FEX</td>
<td>-0.23387</td>
<td>0.2289023</td>
<td>-1.02</td>
<td>0.308</td>
</tr>
<tr>
<td>AUM</td>
<td>-0.06369</td>
<td>0.3693482</td>
<td>-0.17</td>
<td>0.803</td>
</tr>
<tr>
<td>NENAU</td>
<td>-0.44546</td>
<td>0.3254426</td>
<td>-1.37</td>
<td>0.173</td>
</tr>
<tr>
<td>AUSIZE</td>
<td>2.418357</td>
<td>1.120396</td>
<td>2.16</td>
<td>0.032</td>
</tr>
<tr>
<td>PNEDB</td>
<td>0.26637</td>
<td>0.2672382</td>
<td>1.00</td>
<td>0.320</td>
</tr>
<tr>
<td>TA</td>
<td>0.631807</td>
<td>0.0731733</td>
<td>8.63</td>
<td>0.000</td>
</tr>
<tr>
<td>LR</td>
<td>-0.692304</td>
<td>0.1843525</td>
<td>-3.76</td>
<td>0.000</td>
</tr>
<tr>
<td>SD</td>
<td>-0.38979</td>
<td>0.1812704</td>
<td>-2.15</td>
<td>0.033</td>
</tr>
</tbody>
</table>

Source: Authors’ Compilation (2019)
R-Square = 0.46822
F-Statistic= 8.203
Prob.(F-Statistics)= 0.0000.

Table 1.3- Random effect analysis of the impact of audit committee quality on the ROA of the Companies

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>T-Test values</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-2.739076</td>
<td>2.044929</td>
<td>-1.35</td>
<td>0.174</td>
</tr>
<tr>
<td>FEX</td>
<td>-0.0333664</td>
<td>0.2178146</td>
<td>-1.15</td>
<td>0.878</td>
</tr>
<tr>
<td>AUM</td>
<td>-0.1487967</td>
<td>0.3577879</td>
<td>0.42</td>
<td>0.677</td>
</tr>
<tr>
<td>NENAU</td>
<td>-0.533736</td>
<td>0.3195</td>
<td>-1.67</td>
<td>0.095</td>
</tr>
<tr>
<td>AU_SIZE</td>
<td>2.549944</td>
<td>1.036611</td>
<td>2.46</td>
<td>0.014</td>
</tr>
<tr>
<td>PNEDB</td>
<td>0.418655</td>
<td>0.252466</td>
<td>1.66</td>
<td>0.097</td>
</tr>
<tr>
<td>TA</td>
<td>0.6860346</td>
<td>0.0654423</td>
<td>10.48</td>
<td>0.000</td>
</tr>
<tr>
<td>LR</td>
<td>-0.57331</td>
<td>0.1816587</td>
<td>-3.16</td>
<td>0.002</td>
</tr>
<tr>
<td>SD</td>
<td>-0.468827</td>
<td>0.1805263</td>
<td>-2.60</td>
<td>0.009</td>
</tr>
</tbody>
</table>

Source: Authors’ Compilation (2019)
R- Square = 0.4955
Wald Chi²(5) = 144.32
Prob> Chi² = 0.0000
4.4 Fixed Effect Estimation

The result in Table 1.2 reveals that explanatory variables like financial expertise (FEX), Audit committee meeting (AU_M) and Numbers of the non-executive director on the audit committee (NENAU) exhibit negative and insignificant impact on the return on asset (ROA) while leverage ratio and accounting standard also reveal a negative relationship that exerts significant impact on return on asset (ROA). On the other hand, variables like audit committee size (AU_SIZE) and total asset (TA) showed a positive and significant impact on return on asset at 5% level of significance while the proportion of non-executive directors on the companies’ boards (PNEDB) which signifies the independence dynamism clause and relationship with return on asset (ROA) exhibit positive and insignificant relationship. The result posited R-Square value of 0.4682 which shows that about 47 percent of the systematic variation on return on asset (ROA) can be explained jointly by explanatory variables.

4.5 Random Effect Estimation

Due to the problem inherent in the fixed effect model like loss of degree of freedom as more dummy activities are added to the model, possibility of multicollinearity, inability of the fixed effect model to track the impact of time-invariant variables, etc, Random effect assumes that heterogeneity is random rather than fixed and that random effect is incorporated into the error term, thus, forming a composite error term.

In the Table 1.3, the result of the random effect estimation shows that FEX exhibits negative and insignificant impact on return on asset (ROA) while numbers of non-executive directors on the audit committee (NENAU), leverage ratio (LR), accounting standard variance (St_D) also exert negative but significant impact on return on asset (ROA) at 10% level of significance. The only surprising and different result compose to the fixed effect result is that audit committee meeting (AU_M) that have a positive and insignificant impact on the return on asset (ROA). In the same vein, variables like audit committee size (AU_SIZE), total asset (TA) and proportion of non-executive director on the board (PNEDB) confirm negative and significant impact on return on asset (ROA). The reported R-Square value of 0.4955 which is almost 50% of the systematic variation reported on the return on asset (ROA) of companies can be jointly explained by the regression.

4.6 Post Estimation Test

To verify which of the estimator is relatively consistent and efficient between fixed effect and random effect, the Hausman test for the post-estimation test is conducted.

<table>
<thead>
<tr>
<th>Table 1.4- Hausman Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Null hypothesis</td>
</tr>
<tr>
<td>The difference in coefficient not systematic</td>
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</tbody>
</table>

Source: Authors’ Compilation (2019)

In an attempt to know the most reliable estimator between fixed effect and random effect estimation, the Hausman test is conducted to validate whether the difference between coefficient estimates of fixed and random effect is systematic. The null hypothesis underlying that fixed effect estimates does not differ substantially from the random effect as systematic. Notably, the test statistics evolved by Hausman has an asymptotic chi-square distribution. Table 1.4 shows a chi-square value of 18.69 alongside a probability value of 0.0166. The result exerts that there is enough evidence to reject the alternative hypothesis differences in coefficients of random effect estimation is not significant. It indicates that the random effect estimator is not suitable as there is a likelihood that there is a correlation between the random effects incorporated into the composite error term and one or more of the regression.
4.7 Diagnostic Tests

Table: 1.5. Groupwise Heteroskedasticity Test

<table>
<thead>
<tr>
<th>Null hypothesis</th>
<th>Statistics</th>
<th>Probability</th>
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<tbody>
<tr>
<td>Static panel homoscedasticity</td>
<td>8.459.46</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Authors’ Computation, (2019)

Table 1.5 reported the result of the test for standard assumptions of panel data model employed in the study. The result of the heteroskedasticity showed a significant probability (0.000) which indicates a null hypothesis variance error. This implies that the variance of the error is not constant. By implication, there is the presence of homoscedasticity.

4.8 Breusch-Pagan LM Test of Independence

As a result of the possibility of cross-sectional dependence among the cross-sectional units, it is very pertinent that the study conducts a cross-sectional dependence test (panel autocorrelation test). This is necessary as most of the industries or companies may share a common characteristic particularly in terms of production and service line of the cross-sectional firms, thereby giving room for the tendency of sharing similar factors among themselves. However, the responses of cross-sectional units to these common factors will determine whether there is a presence of cross-sectional dependence or not. If the test shows the presence of cross-sectional dependence, the indication is that the behaviors of the variables in the cross-sectional units to the common factor are the same. The results of the cross-sectional dependence test which is based on the correlation matrix of the residual and Breusch – Pagan LM test of independence are presented below:

Table 1.6: Pairwise Correlation Matrix of the Residuals

<table>
<thead>
<tr>
<th></th>
<th>e1</th>
<th>e2</th>
<th>e3</th>
<th>e4</th>
<th>e5</th>
<th>e6</th>
<th>e7</th>
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<th>e19</th>
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</tbody>
</table>

Source: Authors’ Computation, (2019)

Breusch-Pagan LM test of independence: \( chi^2(190) = 217.937, Pr = 0.0804 \)

Ho: There is no Cross-Sectional dependence.
Table 1.6 showed the results of the cross-sectional dependence test. From the results, the null hypothesis that there is no presence of cross-sectional dependence as the probability value (0.0804) is higher than the 5% level of significance. This result, therefore, implies that the reaction of the cross-sectional units (i.e., the selected non-financial companies) to the common factors shocks were the same.

5. Discussion and Findings

The Panel data analysis was conducted to analyze the relationship between audit committee quality and the performance of the selected firms in Nigeria. The post-estimation test (Hausman test) for the performance indicators of the firms which were proxied by return on asset revealed Hausman’s test with a probability value of 0.0166. The result of Hausman’s test concluded that fixed effect estimator is suitable to analyse the impact of audit committee qualities on the performance of the selected firms in Nigeria. The result on Table 4.2 of the fixed effect of the impact of the audit committee qualities on the return on asset revealed that financial expertise (FEX), audit committee meetings (AUM) and numbers of non-executive director on the audit committee composition (NENAU) have a negative and insignificant relationship with return on asset. Critically, the study revealed that the expertise, meeting and non-executive directors of the audit committees have not in any way boosted the return on an asset but, inversely affected the inflow of returns accruing to the companies. This result is not in line with theoretical expectation, but it aligns with the findings of Mrwan, Aiman and Shehata (2014); Muhammad, Suleiman, and Sani (2017); Ahmed (2018) Robin and Noor (2016). It is at variance with the study of Aldamen et al., (2012); Cheah et al. (2016); Sajjad, Engku, and Mourad (2017) and the study of Gabriela (2016) whose results revealed that financial expertise of the audit committee’s composition is positively associated with firms’ performance.

The results of the analysis also showed a positive and significant relationship between audit committee size (AU_SIZE) and total asset (TA). This implies that both variables boost the return accruing to firms, though, this study has shown a positive but insignificant relationship between proportions of non-executive director on the board. These findings corroborate those of Modum, Robinson, and Edith (2013) that revealed a positive and significant relationship between the audit committee’s sizes and performance. Cheah et al. (2016) also found that a positive and significant relationship exists between audit committee’s independence and financial performance, and as a result of this, one could attribute these changes to the deficiency of econometric tools (multiple regression) used by the researchers.

The findings also showed that Leverage ratio (LR) and the Accounting standard variance within the spanned period (SD) have a negative relationship on returns on asset (ROA) of the cross-sectional firms but have a significant impact on ROA. On the other way round, committee size and total asset exert a positive and significant impact on the return on asset. This finding is in agreement with theoretical connotation. This implies that the size and total asset of the firms are contributing meaningfully to the performance of the companies. The overall result with a coefficient of determination ($R^2 0.46822$) indicates that explanatory variables have fairly influenced the return on the asset as a measure of companies performance. That is, audit committee qualities showed a positive and significant impact on the return of asset of companies quoted on the Nigerian Stock Exchange. This also indicates that the resources are fairly used.

6. Conclusion and Recommendations

This study examined the impact of audit committee qualities on the return on asset of companies quoted on the Nigerian Stock Exchange. The panel data model results in Table 4.2 revealed that explanatory variables like financial expertise (FEX), Audit committee meeting (AU_M) and Numbers of the non-executive director in audit committee (NENAU) exhibit negative and insignificant impact on the return on asset (ROA) while leverage ratio and accounting standard also reveal a negative relationship that exerts significant impact on return on asset (ROA). On the other hand, variables like audit committee size (AU_SIZE) and total asset (TA) showed significant positive impact on return on asset at 5% level of significance while the proportion of non-executive directors on the companies’ boards (PNEDB) which signifies the independence dynamism clause and relationship with return on asset (ROA) exhibit
insignificant positive relationship. The result posited R-Square value of 0.4682 which shows that about 47 percent of the systematic variation in return on asset (ROA) can be explained jointly by explanatory variables. In line with the findings, it can be concluded that some of the audit committee variables such as financial expertise, audit committee meetings, numbers of non-executive directors on the audit committee and the control variables (leverage ratio and accounting standard) have a depleting effect on performance (ROA) of quoted non-financial firms. However, the audit committee size, proportion of non-executive directors on the board and total asset contribute to the performance of firms’ indicator. The study also concluded that audit committee variables on a generality, are sensitive to firms’ performance. From the findings of the study, it becomes imperative to make the following recommendations: Management of listed non-financial firms should ensure that wastage is reduced in deciding the composition of audit committee’s beyond the minimum benchmark as stated in the corporate governance code and if there be any need, such need should be geared towards the stakeholders’ interests. Management of listed non-financial firms and the supervisory authorities (CACMA, Nigerian Stock Exchange) should work hand in hand to review from time to time the expertise clause in the audit committee composition to improve the return on asset of the companies.

7. References


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