



EFFECT OF THE AUDIT COMMITTEE ON THE PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The study investigated the relationship between the impact of the audit committee and the financial performance of quoted deposit money banks in Nigeria. The study employed descriptive techniques such as standard deviation and means to analyse data including ordinary least squares (OLS) and multiple regression techniques through panel data. The study found and concluded that the audit committee had a positive relationship with the financial performance of deposit money banks in Nigeria. The study found that a unit increase in audit committees would lead to an increase in the financial performance of deposit money banks., it was recommended that proper policies should be employed in the operation of the audit committee for assessing the financial performance of deposit money banks in Nigeria.

Keywords: Auditing, Banks, Depository Institutions

JEL: Micro Finance Institutions & Mortgages

Introduction

Abdul-Kemi (2015) emphasized that recent corporate financial problems in various countries prompted corporate governance to be conducted in various listed firms in Nigeria through the use of audit committees for ensuring efficiency and effectiveness for the management of the firms, and corporate governance is the process of managing organization activities through organized ways by incorporating any means of an internal check through the audit committee.



Muazu and Aminu (2021) said that information provided by corporate financial reporting ensured wide circulation to various users in an organization for the assessment of true and fair view of the financial report in a given period and aid in decision-making with the use of audit committee; however, audit committee serves as a means of ensuring sound internal control within and outside the organization.

Adamu and Ibrahim (2022) emphasized improving deposit money banks in Nigeria to ensure a proper financial system in Nigeria and protection of shareholders' interests, and this serves as a means of settling conflicts within the business operation and removal of fraudulent activities in the financial system.

Okolie and Ogbaragu (2022) stressed on effectiveness and sound operation of deposit money banks in Nigeria that would be ensured through the operation of audit committee attributes for assessing the financial performance of deposit money banks in Nigeria, and this is a proper avenue in propelling internal check in an organization's management.

In the study of Adamu and Ibrahim (2022), the period used for the assessment of data collected covered 2013 to 2017; likewise, Muazu and Aminu (2021) period covered was not up to 2021; and this prompted the current study to further examine the impact of audit committee attributes on the financial performance of deposit money banks in Nigeria for 2017 to 2021. This will give a better position to assess the current performance of deposit money banks in Nigeria with the utilization of audit committee attributes.

In the studies carried out by Okolie and Ogbaragu (2022), Adamu and Ibrahim (2022) and Abdul-Kemi (2015) was inconsistency in the usage of analysis techniques applied which encouraged the present study to apply all necessary techniques for assessing the impact of the audit committee on financial deposit bank in Nigeria such as ordinary least square (OLS), and multiple regression techniques through panel data.

Literature review

Audit Committee

This is the body set up to examine and strengthen the financial system in an organization to ensure internal control and financial viability in a given period (Akpan & Nsentip, 2020).

Financial Performance

This is the process of assessing the result of activities in the operation of firms for a given period to determine the total value of firms such as debts, assets and leverage (Ishaku *et al.*, 2020).

Theoretical review

Agency theory

The theory shows the relationship between the principal and agent for contractual engagement to achieve a given vision (Ross, 1974). It is further emphasized that an agent in an organization might mission that can cause a breach of agreement with the owners.

The assumptions of this theory emphasize how an independent body can be set up in an organization through the use of an audit committee to ensure smooth operation and effectiveness in discharging responsibility in a given period (Ross, 1973). This serves as a proper means of reducing firm costs, bribery and corruption in the firm's operation.



Empirical review

Abdul-Kemi (2015) examined audit committees' characteristics and financial performance of listed deposit money Banks in Nigeria with the use of independence and financial expertise. It was discovered significant relationship among the variables; however, the size and frequency of the audit committee had no significant relationship with the financial performance of the deposit money Bank in Nigeria. The study recommended that regulators and financial experts should be included in regulating financial transactions in the country.

Muazu and Aminu (2021) researched the effect of audit committee characteristics on the financial reporting quality of Deposit Money Banks in Nigeria. The data were derived from secondary sources with the utilization of multiple regression analysis. It was discovered that female gender and frequency of audit committees had a positive relationship with financial reporting quality in Nigeria of various deposited banks; however, independence of audit committees had no significant relationship with the financial reporting of deposited banks in Nigeria. The study recommended that members of the audit committee should be encouraged with various incentives to discharge their responsibility.

Adamu and Ibrahim (2022) examined the effect of audit committee attributes on the value of listed

deposit money Banks in Nigeria with the use of a secondary source for capturing data. Regression analysis was employed for the analysis and discovered a positive relationship between the variables.

Okolie and Ogbaragu (2022) examined audit committee effectiveness and corporate performance of quoted deposit money banks in Nigeria and used secondary sources for the collection of data with the utilization of panel data through regression analysis. The study discovered a positive relationship among attributes within the variables examined and recommended the proper application of audit committees for the operation of firms in Nigeria.

Research Method

This study used research design, model specification, sample and population of the study, data sources, data analysis and interpretation of the study.

The correlation research design was employed for the proper correlation between audit committee proxies and financial performance proxies.

The population contained the list of deposited money banks in the Nigerian exchange group with a sample of seventeen firms for the assessment of audit committee impact on the firm's performance of deposit money banks in Nigeria; more so, the data were collected from both primary and secondary sources. The data were analysed through Ordinary Least Square (OLS), and multiple regression techniques through panel data.

Models Specification

The audit committee as an independent variable was proxied on firm size, growth opportunity, audit committee size, audit committee independence, audit committee gender diversity, and frequency of audit committee meetings while financial performance as a dependent variable was proxied on Tobin's Q and return on asset.

firm size, growth opportunity, audit committee size, audit committee independence, audit committee gender diversity, and frequency of audit committee meetings

Financial Performance = f(audit committee)

Tobin's Q = $\alpha + \beta_1 \text{SIZE}_{it} + \beta_2 \text{INDEPENDENCE}_{it} + \beta_3 \text{SCHEDULE OF MEETING}_{it} + \beta_4 \text{SIZE}_{it} + \beta_5 \text{GROWTH}_{it} + \beta_6 \text{GENDER}_{it} + \beta_7 \text{FREQUENCY}_{it} + \mu_{it}$ ----- i



$$ROA = \alpha + \beta_1 SIZE_{it} + \beta_2 INDEPENDENCE_{it} + \beta_3 SCHEDULE\ OF\ MEETING_{it} + \beta_4 SIZE + \beta_5 GROWTH_{it} + \beta_5 GENDER_{it} + \beta_6 FREQUENCY_{it} + \mu_{it} \dots \dots \dots i$$

Therefore, the models are mathematically expressed as follows;

Where;

- it = time subscript for panel data
- μ_{it} = error term
- α = intercept
- $\beta_1 - \beta_3$ = coefficients; and
- μ_{it} = error term

Data Analysis and Interpretation

This chapter presents the results of the descriptive and inferential statistics on the effect of the audit committee on the performance of deposit money banks in Nigeria. Descriptive statistics explain the behaviour or characteristics of the data and their fitness for empirical analysis while inferential give information about the empirical investigation of the relationships between/among the specified variables which help to provide answers to the objectives of the study and also test the formulated hypotheses of the study. On the other hand, the inferential statistic involves conducting panel regression analysis which is used to estimate the model specification in the study. The result from the model estimation is discussed in line with previous studies.

Descriptive statistics

It is imperative to analyse the statistical characteristics because it guides and gives a clue on how the bank's specific data behave. The investigation starts through the statistical description which includes the mean, standard deviation, and minimum and maximum values of the variable series specified for the study. The mean shows the average values of the data while the standard deviation shows the degree to which the data vary from the averages. In addition, the minimum and maximum values help to calculate the range value associated with the variable and this also indicates the degree of variability of the data from the averages. Table 1 showed the statistical properties of each variable under study.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
roa	1.501167	2.02112	-9.53	5.62
tobin_q	.1051667	.1027846	.01	.6
fms	9.17975	.4032483	8.19	9.94
gro	17.87133	19.35721	-68.23	102.4
adz	6.033333	.3413599	4	8
adi	50.378	5.015943	40	100
adg	17.36683	14.99396	0	50
adm	4.408333	1.240059	1	11

Note: roa, tobin q, fms, gro, adz, adi, adg, and adm denotes return on asset, Tobin Q, firm size, growth opportunity, audit committee size, audit committee independence, audit committee gender diversity, and frequency of audit committee meetings respectively.

Source: Author's Computation, (2022)

Table 1 revealed the mean, standard deviation, and minimum and maximum values of the variables employed in this study. The mean values of all the variables under consideration



showed a positive value. The common feature of the variables is that they tend to increase within the sampling period. This denotes that the audit committee characteristics of deposit money banks improve alongside their performances proxies which were financial and market performances throughout the sampling period. The return on assets as a measure of the financial performance of the deposit money banks revealed an average value of 1.501167 and it implied that the deposit money banks' assets were judiciously used in generating 150 per cent profit. Contrary to that, the minimum value of the return on asset was -9.53 and it showed that some deposit money banks could not sufficiently use their assets to generate profit within the sampling period which could result in loss. The maximum value of return on assets was 5.62 and it indicated the highest profitability value that could be generated from the use of assets. Also, the growth opportunity and firm size had average values of 17.8713 and 9.1797, respectively, and it signifies that the deposit money banks increased in their asset growth and size throughout the investigation. The minimum value of growth opportunity was -68.23 which indicated a decline in the assets of some deposit money banks. On the other hand, the maximum value of growth opportunity was 102.4 which revealed an increase and expansion in banks' assets. In the same vein, the minimum value of bank size was 8.19 and the maximum value was 9.94 and the deposit money banks were relatively stable within the period of the investigation.

The average value of audit committee size is 6.033333 and it meant that approximately, the deposit money banks have 6 directors that form the audit committee. The result shows that the minimum audit committee size of a deposit money bank is 6 and the maximum audit committee of deposit money banks is 8. Similarly, the average value of audit committee independence is 50.378 and it purports that there are average external auditors in the audit committee with a minimum value of approximately 40 per cent and maximum value of approximately 100 per cent. That could serve as a means to mitigate the conflict of interest and ensure the overall effectiveness of the audit committee which could enhance better financial reporting practices in the deposit money banks. The average value of audit committee gender diversity is 17.36683 and that measured the percentage of females present in the audit committee. The minimum value of the audit committee gender diversity indicates that in some banks, there is no female representation in the audit committee while the maximum value is 50 which suggested that in some banks there was approximately 50 per cent female. Thus, the female representation in the audit committee of the deposit money banks on average could affect the performance of the banks. The average value of audit committee meetings is 4.408333 and this implies that the average frequency of audit committee meetings in a year is 4 with a minimum value of 1 and maximum value of 11.

Despite the average value, the minimum and maximum values, and standard deviation were used to describe the variables. Looking at the standard deviation, the value of audit committee gender diversity is the highest volatile among the variables while Tobin Q is the lowest volatile among the variables. After the description of the variables, the study proceeded to estimate the correlation among the variables and the result was reported in Table 4.2

Correlation Analysis

The correlation analysis is conducted through the use of a correlation matrix which shows the association among the independent variables used in the study. Thus, the result of the correlation matrix is presented in Table 4.2.

Table 2: Correlation Matrix

Variables	adz	adi	adg	adm	fms	gro
adz	1.0000					
adi	-0.3615	1.0000				
adg	0.2084	-0.0934	1.0000			
adm	-0.0920	-0.1220	-0.0142	1.0000		
fms	0.1075	-0.0373	0.2837	-0.0190	1.0000	
gro	-0.0038	-0.0835	-0.0400	0.2445	0.0682	1.0000

Source: Author's Computation, (2023)

The result shows the correlation coefficients in-between each pair of the variables used for audit committee characteristics- audit committee size, audit committee independence, audit committee gender diversity, frequency of audit meetings, firm size and growth opportunity. The first pair has a correlation coefficient of -0.3615, the second pair has 0.2084, the third pair is -0.0920, the fourth pair has 0.1075 and the fifth pair has -0.0038. In the first column, audit committee size moves in the opposite direction with audit committee independence, audit committee meeting and growth opportunity firm size and growth opportunity but it moves in the same direction with audit committee gender diversity and firm size. The second column shows that audit committee independence moves in the opposite direction with audit committee gender diversity, frequency of audit meetings, firm size and growth opportunity. The third column shows a correlation among audit committee gender diversity, frequency of audit committee meetings, firm size and growth opportunity with correlation coefficients of -0.0142, 0.2837 and -0.0400 respectively. It implies that audit committee gender diversity moves in the opposite direction with the frequency of audit committee meetings and growth opportunities but it moves in the same direction with firm size. The fourth column shows that the audit committee meeting has a negative correlation with firm size but a linear correlation with growth opportunity. The fifth column of the correlation matrix shows the correlation between firm size and growth opportunity with a coefficient of 0.0682 and it implied that firm size was linearly correlated with growth opportunity. Thus, there was evidence of low correlation coefficients which invariably suggests that each pair of the variables are not perfectly correlated, and, as such, the assumption of multicollinearity or perfect collinearity was refuted. Thus, there was the absence of a multicollinearity problem in our model

Data Interpretation

The estimation of panel data regression is embedded with pooled regression, fixed effects, and random effects. The three models could not be computed at the same time and as a result of this, the random effect has to be tested against the pooled effect; the fixed effect has to be tested against the pooled effect; and the random effect has to be checked against the fixed effect. Thus, the study conducts a pool ability test to check the superiority between the fixed effect model and pooled regression. Breusch-Pagan Lagrangian Multiplier (LM) test was conducted for the random effects model and the pooled regression model. The Hausman test was conducted to decide the appropriateness between the fixed effect model and the random effect model. Thus, the study presents the pre-estimation tests alongside the estimation of the model. Thus, Table 4 summarized the output of the pre-estimation tests for the models of this study and it was presented in two panels.



Table 3: Diagnostic Test

Statistics	Panel A	Panel B
Probability Test	4.65 (0.000)	19.88 (0.000)
LM Test	30.71 (0.0000)	164.29 (0.0000)
Hausman Test (0.8362)	2.78 (0.4022)	6.19

Note: Figures in () represented the Probability values.

Source: Author's Computation (2023)

The result of the pre-estimation tests in Panel A which shows the effect of the audit committee on financial performance reveals that the fixed effect model was appropriate when compared with the pooled model since the value of p-value was lesser than 5 per cent under the pool ability test. Also, the LM test showed that the random effect was superior to the pooled regression since the P-value was less than 5 per cent. More so, the Hausman test showed that the random effect model was appropriate when compared with the effect fixed model since the associated P-value of the Hausman test is larger than 5 per cent. Thus, the study proceeded to interpret the random effect model. Similarly, Panel B depicted the pre-estimation test on the effect of the audit committee on market performance. In the result, the pool ability test reveals that the fixed effect model is appropriate when compared with the pooled model since the value of the p-value is lesser than 5 per cent. Also, the LM test shows that the random effect was superior to the pooled regression since the P-value was less than 5 per cent. More so, the Hausman test shows that the random effect model is appropriate when compared with the random effect model since the P-value is larger than 5 per cent. Thus, the random effect model should be interpreted. Therefore, the estimations of the two models are presented in Tables 5 and 6 respectively.

Audit Committee Characteristics and Financial Performance

To achieve the objective and answer the question of whether audit committee characteristics affect financial performance, the study used return on asset to proxy for financial performance, thus, the analysis was shown in Table 4.

Table 4. Financial Performance and Audit Committee Characteristics

Variables	Pooled	Fixed Effect	Random Effect
Adz	.4917261 (.5254793) [0.351]	.1876945 (.4721524) [0.692]	.2342665 (.4620767) [0.012]
Adi	.0163165 (.0352646) [0.644]	.0100225 (.0315933) [0.752]	.0108284 (.0309337) [0.026]
Adg	.0158506 (.0115204) [0.172]	.0033965 (.0149603) [0.821]	.0065503 (.0135346) [0.028]
Adm	-.0981035 (.137233) [0.476]	.0326981 (.1296834) [0.801]	.0056434 (.1249309) [0.964]
Fms	1.983325 (.4220704)	1.616724 (.8595244)	1.838963 (.6578289)



	[0.000]	[0.063]	[0.005]
Gro	.0235943	.0183179	.0191758
	(.0087049)	(.0077576)	(.0075998)
	[0.008]	[0.020]	[0.012]
R-squared	0.2710	0.4473	0.4620
F-Stat	7.00	1.94	
P(F-Stat)	0.0000	0.0812	
Wald-Chi			17.83
P(Wald-Chi)			0.0067

Note: Figures in () and [] represented the standard deviation and Probability values respectively.

Source: Author's Computation, (2023)

The results depicted in Table 4 showed the effect of audit committee characteristics on financial performance. In line with the pre-estimation test shown in Table 4.3, the study interprets the output of the random effect model. As shown in the Table, audit committee size, audit committee independence, audit committee gender diversity, firm size and growth opportunity have a positive and significant effect on the financial performance of deposit money banks in Nigeria. On the other, the audit committee meeting has a positive but insignificant effect on the financial performance of deposit money banks in Nigeria. The coefficient of determination shows a value of 0.4620 and it indicated that almost 46 per cent variation in financial performance could be explained by explanatory variables-audit committee size, audit committee independence, audit committee gender diversity, audit committee meeting, firm size and growth opportunity while the remaining 54 per cent variation in financial performance could be explained by other factors which were not included in the study. More so, the model was significant because the probability values associated with F-statistic were less than 0.05 and it suggested that a valid generalization could be drawn from the model estimation.

Audit Committee Characteristics and Market Performance

The result in Table 5 shows whether audit committee characteristics affect the market performance of deposit money banks in Nigeria.

Table 5: Market Performance and Audit Committee

Variables	Pooled	Fixed Effect	Random Effect
Adz	.0286832	.0003314	.0012361
	(.0303541)	(.0188445)	(.0188274)
	[0.347]	[0.046]	[0.948]
Adi	-.0009422	-.000828	-.0008557
	(.002037)	(.0012609)	(.00126)
	[0.645]	[0.513]	[0.497]
Adg	.000676	-.0002122	-.0001753
	(.0006655)	(.0005971)	(.0005834)
	[0.312]	[0.723]	[0.064]
Adm	-.0130405	.0012411	-.0000332
	(.0079272)	(.0051759)	(.0051434)
	[0.103]	[0.811]	[0.995]
Fms	.0090432	-.1067255	-.0841567
	(.0243808)	(.0343052)	(.0317102)
	[0.711]	[0.002]	[0.008]
Gro	-.000011	-.0002202	-.0002119
	(.0005028)	(.0003096)	(.0003094)
	[0.983]	[0.479]	[0.493]



R-squared	0.0595	0.1100	0.1088
F-Stat	1.19	1.94	
P(F-Stat)	0.3161	0.0594	
Wald-Chi			9.58
P(Wald-Chi)			0.0435

Note: Figures in () and [] represented the standard deviation and Probability values respectively.

In line with the documentation of the pre-estimation test result in Table 3, the random effect model was superior to the fixed effect model. The study interprets the random effect model. Audit committee size has a positive but insignificant effect on the market performance of deposit money banks in Nigeria. On the other hand, the audit committee independence, audit committee gender diversity, audit committee meeting, firm size, and growth opportunity have a negative but insignificant effect on the market value of deposit money banks in Nigeria. However, the audit committee's gender diversity is significant at 10 per cent level of significance. The coefficient of determination reveals that audit committee size, audit committee independence, audit committee gender diversity, audit committee meeting, firm size, and growth opportunity almost 11 per cent variation in the market performance of deposit money banks while 89 per cent variation in the market performance of deposit money banks could be explained by other factors. In addition, the probability of F-statistic reveals that the model is significant at the level of 5 per cent and generalization can be deduced.

Discussion of Findings

Evidence from the findings revealed that audit committee size, audit committee independence, and audit committee gender diversity have a positive and significant effect on financial performance while audit committee meeting has a positive but insignificant effect on financial performance. This simply implies that an increase in the audit committee size, audit committee independence, audit committee gender diversity and audit committee meeting will increase the financial performance of deposit money banks in Nigeria. This conforms to the proposition of agency theory that the auditing mechanism serves as a monitoring parameter to check agent behaviour to improve the firm performance. On the other hand, it was found from the estimation output that audit size has a positive effect on market performance while audit committee independence, audit committee gender diversity and audit committee meeting have a negative and insignificant effect on the market performance of deposit money banks in Nigeria, this partially conforms to the proposition of agency theory.

Conclusion

The study found and concluded that the audit committee had a positive relationship with the financial performance of deposit money banks in Nigeria. The study found that a unit increase in audit committees would lead to an increase in the financial performance of deposit money bank

Recommendation

It was recommended that proper policies should be employed in the operation of the audit committee for assessing the financial performance of deposit money banks in Nigeria.



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