Audit Committee Attributes and Financial Performance in Deposit Money Bank

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ABSTRACT

The aim of this study was to investigate the influence of audit committee attributes on financial performance in deposit money banks. The broad objective of this study was to determine the extent to which audit committee size, audit committee independence, audit committee meeting influences financial performance of deposit money banks listed on the Nigeria Stock Exchange. Samples of ten (10) listed deposit money banks on the Nigerian Stock Exchange were conveniently selected for a period of thirteen (13) years (2006 – 2018). The Panel Least Square (PLS) regression technique was employed in estimating the data and testing the formulated hypotheses. Based on the analysis, we found that there is a positive and insignificant relationship between the variables of audit committee size, audit committee independence, audit committee meeting and financial performance of deposit money banks. In line with the findings, the researcher recommended that audit committee be constituted by independent persons, with high level of integrity that can match words with action to improve performance of deposit money banks in Nigeria.

Keywords: Audit, Committee Attributes, Financial Performance, Deposit, Money, and Bank.

Introduction

The banking institution is indispensable in modern society. It plays a vital role in the economic development of a country and forms money marketing in advanced country (Pinto, Hawaldar, Rahiman, Rajesha&Sarea, 2017). In a stable economic system, banking activities hold remarkable role by enhancing financial resources for industrial activities which intern generate employment opportunities and overall development of the country(Pinto, Hawaldar, Rahiman, Rajesha&Sarea, 2017).According to Olusanya, Oyebo and Ohadebere (2012) deposit money banks are the most important savings, mobilization and financial resource allocation institutions. Consequently, these roles make them an important phenomenon in economic growth and development.Ajao and Oseyomon (2019) opine that the relevance of the banking sector to the growth of the economy through their intermediation roles between the surplus and deficitsectors cannot be overemphasized; hence they are often regarded as catalyst forgrowth especially in emerging economies with underperforming capital markets.

Financial performance of deposits money banks globally is the hub and the pillars of every nation's economic and financial system, hence, the stability and underlying economic performance of deposit money banks is vital and paramount to the macroeconomic development of a nation(Mehmood, Hunjra&Chani, 2019). The stakeholders in the banking industry ranging from depositors, investors, shareholders and the policy makers have high agitation on the performance of

deposit money banks because of the risks inherent in not getting adequate returns on the investment (Adegbie&Otitolaiye, 2020).

Ashari and Krismiaji (2020) opine that financial performance has implications for the company's future. The effectiveness and efficiency of management in using corporate resources are reflected by high financial performance and in turn contributes to the economy of a company.

According to Onayde, Okpanachi, Nyor, Yahaya and Ahmed (2018), the objective of financial reporting is to provide high quality financial information about economic entities that is useful for economic decisions. Onayde, Okpanachi, Nyor, Yahaya and Ahmed (2018) buttress that high quality financial reporting is critical to investors and other stakeholders in making investment, credit and similar decision.

Where information in the financial report is established to be materially false and misleading, a crisis may ensue for the corporation concerned as well as for its auditors and regulator which may include liquidation and litigation (Moses, 2019). However, as a myriad of scandals has shown, the contents of financial reports remain a source of worries for stakeholders. As noted by Al-Shaer, Salama, and Toms (2017) high profile scandals like the ones involving Enron and Worldcom in the US and Cadbury, Afribank and Intercontinental Bank PLC in Nigeria involved extensive fraud and falsification of contents financial statement. To forestall financial statement fraud crisis, organizations take a wide range of actions which include setting up committees whose roles include watching closely the contents of the financial report from compilation to publication and beyond. One of such committees is the audit committee which according to Eyenubo, Mudzamir, and Ali (2017) consists of a selection of members of an organization saddled with the duty of oversight of the companies accounting and financial reporting as a good corporate governance tool which enhances the integrity of financial reporting.

Mustafa, (2012) see the Audit Committee (AC) as is a central element of one of such reforms that can enhance financial performance through an open and candid communication and a good working relationship with a company's board of directors, internal auditors and external auditors

The primary role and responsibility of audit committees is to make recommendations on the appointment and change of external auditor; it covers wider areas including the monitoring of managers and review of the company's internal control system (Alqatamin, 2018). It has been suggested that knowledgeable audit committees help enhance the company's performance; therefore, good characteristics of audit committees are associated with good company performance (Zabri, Ahmad &Wah, 2016).

Though a number of studies have been done on area of audit committee attributes and financial performance, it appears that, many studies on audit committee attributes and financial performance have been conducted outside Nigeria (Ashari&Krismiaji, 2020; Ashari&Krismiaji, 2019; Alqatamin, 2018;Zraiq&Fadzil, 2018; Glover-Akpey&Azembila, 2016), while most of these studies conducted in Nigeria emphasized more on establishments like insurance companies, agriculture, food and beverage, conglomerates, health care,with little focus on deposit money banks;for example, the research done by (Osemene&Fakile, 2018; Hope &Ikueze, 2018;Ebere&Ibanichuka, 2016;Ojeka, Iyoha&Obigbemi, 2014).

Therefore, having carefully looked at most of the previous studies on audit committee attributes and financial performance, we found that they were conducted on organization in the insurance companies, agriculture, food and beverage, conglomerates, health care, etc. This means that the findings of these studies cannot be generalized to deposit money banks in Nigeria given the difference in the way both sectors (companies) are run. Thus, the need to examine audit committee

attributes and financial performance with special reference to listed deposit money banks in the Nigerian Stock Exchange.

Additionally, the time period covered by some of the previous studies leaves a gap. The works of Osemene and Fakile, 2018 for instance, covered the period from 2013 to 2017. Hope and Ikueze(2018) covered the period of 2007 to 2016. Ebere and Ibanichuka(2016) covered the period of 2008 - 2014 and Ojeka, Iyohaand Obig bemi(2014) covered the period of 2004 – 2011. These periods can be regarded as not too current. Some of the findings of these studies may not be relied upon in view of the fact that the studies have been taken over by the changes. Furthermore, most studies in this area were either conducted in the insurance companies, agriculture, food and beverage, conglomerates, health care, etc. and none has specifically covered the listed deposit money banks in Nigeria, except Osemeneand Fakile (2018).

In view of the above, there is the need to conduct a study with a view to filling these gaps that exist in the literature. Against this backdrop, the following research questions are raised:
1. What is the relationship between audit committee size and financial performance in deposit money banks?
1. What is the relationship between audit committee independence and financial performance in deposit money banks?
2. What is the relationship between audit committee meeting andfinancial performance in deposit money banks?

Objectives of the Research
The broad objective of this study is to empirically assess audit committee attributes and financial reporting quality. Specifically, this research seeks to;
1. examine the relationship between audit committee size and financial performance in deposit money banks;
2. investigate the relationship between audit committee independence and financial performance in deposit money banks;
3. ascertain the extent to which audit committee meeting affect financial performance in deposit money banks.

Research Hypotheses
The hypotheses to be tested in this study are stated in null form as follows:
H_{01}: There is no significant relationship between audit committee size and financial performance in deposit money banks;
H_{02}: There is no significant relationship between audit committee independence and financial performance in deposit money banks;
H_{03}: Audit committee meeting does not have significant effect on financial performance in deposit money banks.

Literature Review
Conceptual Clarification
Concept of Financial Performance
Firm performance is the level of organizational achievement with regard to organization regulations, expectation and requirement in meeting the organizational goals and objectives (Folorunso, Adewale&Abodunde, 2014). Akingbola (2013), is of the opinion that non-profit organizations environment call for a more formal management structure in order to understand the relationship between strategic planning and firm performance. Nzuve and Nyaega (2012) opine that performance is the fulcrum of strategic management because the strategic unit of the business is thinking about defining and measuring performance. Meanwhile, performance is a summary approach

used in assessing the progress made toward goals, identifying and adjusting factors that has limit the progress of the organization in a competitive environment (Adeoye&Elegunde, 2012).

Okoye and Ezejiofor (2013) are of the opinion that organizational performance is a measure of how the organization is functioning in meeting the goals and objective which is an indication of efficiency and competition. Richard, Devinney, George and Johnson (2009), add that organizational performance is seen as the measure of how a manager utilizes the resources of the organization efficiently and effectively to accomplish the goals of the organization as well as satisfying all the stakeholders. In addition, performance is usually employed by human resources management and industrial psychology in assessing the level of success achieved by the individual employees and the organization at large.

Concept of Audit Committee

Emeh and Appah (2013) define audit committee as a committee appointed by a company as a liaison between the board of directors and the external auditors; this committee normally has a majority of non-executive directors and is expected to view the company's affairs in a detached and dispassionate manner. Audit Committees were relatively rare until the 1970s, when large corporations increased their voluntary formation. As the use of audit committees increased, policy makers, private interest groups, and researchers have advanced numerous concerns about a lack of relevant accounting, auditing and corporate governance knowledge and experience among audit committee members. The Companies and Allied Matters Act 1990, as amended and consolidated in the 2004 Act, stipulates that everypublic company in Nigeria must have an audit committee. The functions of the committee are spelt out in section359(6) as follows: "(i) ascertain whether the accounting and reporting policies of the company are in accordance with legal and agreed ethical practices; (ii) review the scope and planning of audit requirements; (iii) review the findings on management matters in conjunction with the external auditors and departmental responses thereon;(iv) keep under the effectiveness of the company's system of accounting and internal control; (v) make recommendations to the board in regard to the appointment, removal and remuneration of external auditors of the company; and (vi) authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee."

Ilaboya and Iyafekhe (2014) assert that the audit committee playscrucial role in assisting the Board in fulfilling its responsibilities by overseeing the accounting and financial reporting processes. They (Ilaboya and Iyafekhe,2014)posited that one mechanism that has been widely used in worldwide corporate organizations to monitor the financial reporting process and corporate governance isthe establishment of an audit committee comprising a majority of independent directors.

Aderemi, Osarum wense Kehinde and Egbide (2016) posit that the audit committee is a central element of one of such reforms that can enhance financial performance through an open and candid communication and a good working relationship with a company's board of directors, internal and external auditors.

Similarly, Sharinah, Mohd and Azlina (2014) maintain that an audit committee is a sub-committee of acorporate governance structure. The committee plays a significant role in monitoring the financial reporting process as delegated by the Board of Directors. According to them, there are four fundamental responsibilities of an audit committee – assessing risk and control environment, overseeing financial reporting, evaluating the audit process and reviewing conflict of interest and related party transaction. These roles and responsibilities require the members of the audit committee to have specific characteristics and background to effectively and efficiently perform their task.

Hussaini and Gugong (2015) declare that it is the responsibility of the board to ensure that the committee is constituted in the manner stipulated by law and is able to effectively discharge its

statutory duties and responsibilities. At least one board member of the committee should be financially literate; members of the committee should have basic literacy and should be able to read financial statements. At least one member should have knowledge of accounting or financial management, whenever necessary; the committee may obtain external professional advice.

The audit committee as seen by Ojeka, Iyoha and Asaolu (2015)plays a central role in the financial monitoring of a firm. It also acts in a manner that will provide oversight roles over accounting policies and judgments, as well as the quality of the overall financial statements. Audit committee is one mechanism available to the board of directors to limit conflicts of interest between managers and stockholders. The wide adoption of the formation of audit committees around the world suggests the importance of an audit committee as a governance mechanism. According to Ojeka, Iyoha and Asaolu (2015), audit committees would be important governance mechanisms that would protect the interests of the shareholders and ensure transparent reporting and improve audit quality.

Aryan (2015) say that the duties of audit committee are determined as follows: (1) discussing matters related to the nomination and working of the external auditor and reviewing the company's correspondence with the external auditor; (2) monitoring the company's compliance with laws and regulations in force and the requirements of regulatory institutions; (3) monitoring any change in the company's accounting policies, and any change in the company's accounts as a result of the auditing processes; (4) evaluating the internal control and auditing procedures and the auditor evaluation for internal control; and (5) ensuring that no conflict of interest may arise from the company's transactions, contracts or projects with related parties. According to Aryan (2015) the power of audit committee, are: (1) requesting the presence of the external auditor if the committee sees a need to meet him regarding his work; (2) nominating the external auditor to the board of directors for election by the general assembly; and (3) nominating a candidate to be appointed as the company's internal auditor.

Dauda (2015) see audit committee as the committee of company's board of directors vested with important responsibilities to on behalf of the company shareholders, to oversee the financial reporting process, the integrity of companies' financial statement, the company's compliance with legal requirements, the external auditor's qualification, independence and performance and the internal audit function.

Audit Committee Size

This refers to the number of directors on the audit committee. The size of an audit committee may have effect on its effectiveness and ultimately on the quality of financial reporting (Mbobo&Umoren, 2016). Similarly, Ibadin and Elijah (2015) opine that the size of audit committee is referred to as the number of directors appointed to be members in the audit committee, in this regard there could be small, medium and large audit committees. In Nigeria, the Companies and Allied Matters Act, 1990 states that a public limited liability company should have an audit committee (maximum of six members of equal representation of three members each representing the management/ directors and shareholders) in place. The members are expected to be conversant with basic financial statements. The committee has the following objectives: (i) Increasing public confidence in the credibility and objectivity of published financial statements. (ii) Assisting the directors, especially the non- executive directors, in meeting their responsibilities of financial reporting. (iii) Strengthening the independent position of a firm's external auditors by providing an additional channel of communication.

According to Eyenubo, Mohamed and Ali (2017) the important role of audit committee is to oversee the integrity of financial statements, the efficiency and effectiveness of internal control system and monitoring of both internal and external auditors. The existence of audit committee members could help to balance different views of management and external auditor and to provide

high financial reporting reports (DeFoond&Jiambalvo, 1991). Bradbury, Mak and Tan (2006) examine the impact of audit committee size on financial reporting quality on the listed firms on Singapore exchange in fiscal year 2010. The findings reveal that audit committee size with incremental independence leads to higher financial reporting quality.

Al-Muzaiqer, Ahmad and Hamid (2018) opine that the role of the audit committee necessitates adequate resources to ensure its efficient performance. One of these resources is its sufficient size. A larger audit committee, with sufficient resources, can address issues faced by the company more effectively. This could reduce agency problems in a timelier manner. Thus, it is expected that a large number of audit committee members, through the diversity of their knowledge, can influence financial reporting quality.

Chukwu and Nwabochi (2019) posit that an audit committee with large membership is blessed with different viewpoints in deliberating on financial reporting issues. It also enables the committee to handle several financial reporting issues simultaneously thereby leading to timely completion of external audit. However, large size audit committee encounters free riders problem and difficulties in co-ordination.

Audit Committee Independence

Audit committees independence is the number of independent non-executive directors in theaudit committee. Independence of audit committees helps to ensure that management istransparent and is held accountable to stakeholders (BRC, 1999). It is expected thatindependent audit committee are thorough in their work hence they are not likely to not seemajor or minor financial errors that happen during or in the process of financial reporting.

The audit committee is composed of directors and representatives of shareholders in line with the provisions of the CAMA 2004. The reason for the inclusion of shareholders is to strengthen the independence of the committee. Audit committee is usually considered to be independent if the members of audit committee are free from any relationship that might impair, or might appear to impair, their judgment. Generally the literature considers uses the proportion of non-executive and independent directors on the audit committee as proxy of audit committee independence (Chukwu&Nwabochi, 2019).

It has been widely argued as being one of the key characteristics associated with the effectiveness of the audit committee. The notion of being an independent director according to the Listing Requirement of Malaysia is referred to as the directors who are free from any relationship and independent from the company's management or having no shares in the company and having no relationship with any major shareholders, officers and executive directors (Ibadin& Elijah, 2015).

Audit Committee Meeting

Another characteristics of audit committee considered in the literature as a determinant of the effectiveness of the committee is frequency of meetings (Chukwu&Nwabochi, 2019).The number of audit committee meetings has been used frequently as proxy for diligence and activeness of audit committee in corporate governance literature (McMullen and Raghunandan,1996; Song and Windram, 2004; Al-Lehaidan, 2006).

Review of Previous (Empirical) Studies

Ashari and Krismiaji (2020) investigate the effect of audit committee characteristics, which includes independence (ACIN), size (ACSIZE), competence (ACCO), and frequency of meetings (ACMT) on the financial performance (PERF) of manufacturing firms listed on the Indonesian Stock

Exchange for the year of 2016 and 2017. PERF is measured and proxy with the return on assets (ROA); ACIN is measured by the percentage of members from outside the company; ACCO is measured using percentage of audit committee members who have accounting and finance educational background; and ACMT is measured using the number of audit committee meetings in 2016 and 2017. This study uses a sample of 466 observations of publicly listed companies on the Indonesian Stock Exchange for the fiscal year that ends on December 31, 2016 through 2017 which are retrieved for 660 listed companies' population. The study finds that all of the characteristics of audit committee positively affect the company's performance. The research also uses three control variables, which are the quality of auditors (BIG4), financial leverage (LEV) and company size (SIZE). BIG4 and LEV positively affect the company's financial performance, while the financial performance of the company is negatively affected by SIZE.

Rahman, Meah and Chaudhory (2019) explore the impact of audit characteristics on firm performance. In this study, external audit quality (BIG4),frequencies of audit committee meetings, and audit committee size are used as the proxies of audit characteristics and firm performance is measured through ROA, profit margin and EPS. A total of 503 firm years are considered as sample size from the listed manufacturing firms of Dhaka Stock Exchange (DSE) during the period of 2013 to 2017 to find out the impact of audit characteristics on firm performance. In this study, multivariate regression analysis is conducted using the pooled OLS method. Moreover, time dummy and lag model of multivariate analysis are also analyzed as robust check. The multivariate regression results find that external audit quality (BIG4) and audit committee size are significantly positively associated with firm performance. This study also finds that there is a significant negative relationship between audit committee meeting and firm performance.

Zraiqand Fadzil (2018) examining the association between audit committee and firm performance of the Jordanian firms. This study used OLS regression to test the relationship between independent variable and dependent variable as discussed in the section explaining the study method. The data comprised of 228firms industrial and services. As this study Jordan attempts to bridge thegap. In the existing literature by investigating the association between audit committee and firm performance in the emerging market of Jordan.The findings indicated a positive direction but in significant relationship between audit committee size and ROA. Whereas, audit committee size with EPS is positive direction and significant. Farther more, the result shows audit committee meetings significant and positive direction with ROA. Correspondingly, audit committee meetings with EPS represent positive direction but insignificant.

Alqatamin (2018) investigate the effect of audit committee characteristics on the company's performance. The sample consists of 165 non-financial companies listed on the Amman Stock Exchange (ASE) over the period2014-2016. The results of the study show that the audit committee size, independence and gender diversity have a significant positive relationship with firm's performance, whereas experience and frequency of meetings has an insignificant association. The results of the study could be beneficial for managers and boards in making suitable choices about audit committee characteristics and corporate governance mechanisms to enhance the company's performance.

Hope and Ikueze (2018)examine the effect of audit committee characteristics on performance of selected non-financial firms quoted in 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 thereis a significant positive relationship between audit committee independence, audit committee meeting and firm performanceat 5% level of significant while a positive significant

association was also recorded against audit committee size and return onassets but at 10% level of significant while an insignificant and positive relationship was observed between audit committee qualification and return on assets of non-financial firms in Nigeria.

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

Glover-Akpey and Azembila(2016)examine the associationbetween the characteristics of audit committees and performance of firms. Data were collected from a samplesize of 36 trading stocks on the Ghana Stock Exchange for the financial year of 2015. The number of meetingsand financial experts among other characteristics were the predictors of the performance of the traded stock onthe Ghana Stock Exchange (GSE). To test the hypothesis for the study, Logit cross-sectional regression usingSPSS 17.0 version was utilized. This study revealed a relationship between the characteristics of the auditcommittees and the performance of the firms. Meanwhile, the number of independent members on the auditcommittee had no influence on the performance of the firms. However, the number of independent members ofthe audit committee with finance or accounting degrees impacted negatively on the firm's performance.

Ebereand Ibanichuka(2016) examine audit committee and financial performance of quoted insurance companies in Nigeria (2008 – 2014) with the objective of finding out the extent to which audit committee can affect return on asset (ROA) and Return on Equity (ROE) of the listed companies. In order to achieve the purpose of the study, secondary data regarding the corporate governance practices and financial performance was collected from ten (10) insurance companies listed on the Nigeria Stock Exchange. The data was sourced from the annual reports of the concerned insurance companies. The collected data which was secondary in nature was analyzed using regression analysis. The findings of the study showed that audit committee does not significantly affect the Return on asset of insurance companies. The findings further indicate that Audit committee size does not significantly affect the return on equity of insurance companies in Nigeria.

Ojeka, Iyoha and Obigbemi(2014)explore the influence of audit committee effectiveness on firm's performance using four characteristics: independence,financial expertise, size, and meetings of the audit committee. The performance measures were Return on Equity (ROE), Return on Asset (ROA) and Return on Capital Employed (ROCE). Twenty five(25) manufacturing firms were selected and from which data were collected for the period (2004-2011). Empirical analysis was carried out using regression and correlation. The result of the analysis showed a positive significant relationship between in dependence and financial expertise of the audit committee and ROA, ROE and ROCE. However, the size and meetings of audit committee showed no significant relationship with all performance variables.

Methodology

The study adopted correlation research design. A correlation research design is frequently employed when portraying the statistical correlation among two or more variables. It is consequently more suitable for this study since it consent to experimenting anticipated relationships between one and among variables. Secondary data was obtained from financial statements of selected deposit money banks quoted on the Nigerian Stock Exchange.

The sample size for this study shall be ten (10) deposit money banks listed on the Nigeria Stock Exchange market as at December, 2018. Convenience sampling technique was utilized. The convenience sampling technique was utilized because financial statement of some deposit money bankwas not available online for the period under review. Therefore, only deposit money bank with financial statements covering the time period of 2006 to 2018was selected based on access to their annual reports and accounts.

Model Specification

The econometric model that will be employed in this study is a multiple regression model. A multiple regression model is that which seeks to express relationships between dependent variable and the independent variables. In the light of the methodological knowledge gathered and empirical literature so far studied, the researcher specified a multiple regression model. The study attempted to examine audit committee attributes and financial performance of deposit money banks. Therefore the model for the study was adopted, modified and was specifically developed for this study.

In specifying the model for this study, the researcher adopted and modified the model used byAsiriuwa, Aronmwan, Uwuigbe and Uwuigbe, (2018)&Umobong and Ibanichuka (2017),

In a functional form, we have

FPER = f(ACSIZE, ACIND, ACMEET)

Expressing equation in econometric form, we have

$FPER_t = \beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACIND_{it} + \beta_3 + ACMEET_{it} + e_t$

Where:

FPER = Financial Performance (proxy for Return on Asset)
ACSIZ = Audit Committee Size
ACIND = Audit Committee Independence
ACMEET = Audit Committee Meeting
 "i" for firms
"t" for time
e_{it} for error terms

Operationalization of Variables

Variable Labels in the OLS	Corporate Attributes	Measurement	Source	**Apriori Sign**
FPER	Financial Performance	This is taken as Return on Asset. and it is measure as net income/total asset		
ACSIZE	Audit Committee Size	Size of the committee	Ibadin and Afensimi, 2015)	+
ACMEET	Audit Committee Meeting	Number of audit committee meeting during the year	Ojeka, Iyoha and Asaolu (2015)	+
ACIND	Audit Committee independence	Proportion of executive director on the audit committee	Aronmwan, Ashafoke and Mgbame (2013)	+

Source: Researcher's Compilation from Previous Studies

Method of Data Analysis

The main statistical tool to be employed in this research is "Panel Least Square Technique (PLS)" which helps us to estimate the value of the dependent variables, when we are given the value of one or more independent variables. Other statistical test like descriptive statistics, correlation matrix and other diagnostic tests will also be used to analyze the data.

The Panel Least Square is a statistical tool that enables the researcher to establish if there is any relationship between two variables. The computation of Ordinary Least Square is based on the outcomes of the regression which is used to test the various hypotheses formulated previously in chapter one of this study.

Diagnostic Tests

Prior to the regression analysis, this study set out some diagnostic test to address some basic assumptions underlying regression analysis.

Normality test

The Jarque- Bera (1987) test statistic was be used to test if the regression variables follow the standard normal distribution. The JB statistic tests the normality test will be used to establish the behavior of the regression variable. It will help us determine if the regression variables follow the standard normal distribution. The Jarque-Bera test statistic will be used to test the normality. If the residual are normally distributed, the statistical histogram will assume a bell-shaped structure.

In general form, $JB = \dfrac{N-K}{8}\left[S^2 + \dfrac{1}{4}(K-3)^2\right]$

Where: S = Skewness, K = Kurtosis and N = Number of Series. The decision rule is to reject the null hypothesis if JB statistic exceeds 0.05.

HeteroscedasticityTest

Heteroscedasticity means the absence of homoscedasticity, the constant variance assumption of the Panel Least Square estimator. It implies the absence of non-constant variance leading to the breakdown of the BLUE properties in which the efficiency and consistency property are lost. A non-parametric test first proposed by Gorringe is to compute the Spearman coefficient of rank correlation between the absolute values of the residuals and the X variables with which squared residual might be associated. Under the null hypothesis of homoscedasticity, the Spearman coefficient of rank correlation r has a value of zero. Thus, high values of r indicate the presence of heteroscedasticity. After that, we use the table of' critical values of Spearman coefficient of rank correlation to decide. Using the Breuschpagan-Godfrey test also, the decision rule is to conclude that there is no heteroscedasticity if the F-statistic and observed R-square values are respectively greater than the critical values at 5% level. In the absence of this (i.e. if the critical values at 5% is greater than the F-statistic and observed R-square value), we conclude that there is heteroscedasticity.

Data Analysis and Interpretation

This section presents the analysis of the data extracted from financial statement/audited annual report of ten (10) quoted deposit money banks on the Nigerian Stock Exchange, the study comprises of a single regression model with a panel of 130 observations in a thirteen (13)-year period, 2006 to 2018. The study empirically examines the audit committee attributes and financial performance in deposit money banks with Financial Performance proxied for Return on Asset (ROA)stands as the dependent variable, while the independent variables include Audit Committee Size (ACSIZE), Audit Committee Independence (ACIND) and Audit Committee Meeting

(ACMEET). The data were analyzed using descriptive statistics, correlations analysis, while the hypotheses were tested using the Panel least square (PLS) regression technique. This was achieved through the use of E-views 9.0 econometric computer software.

The presentation of the results is as follows; firstly, the descriptive statistics result is presented. Secondly, the correlation result and analysis is also presented. Next, the ordinary least squares regression result is presented and analyzed.
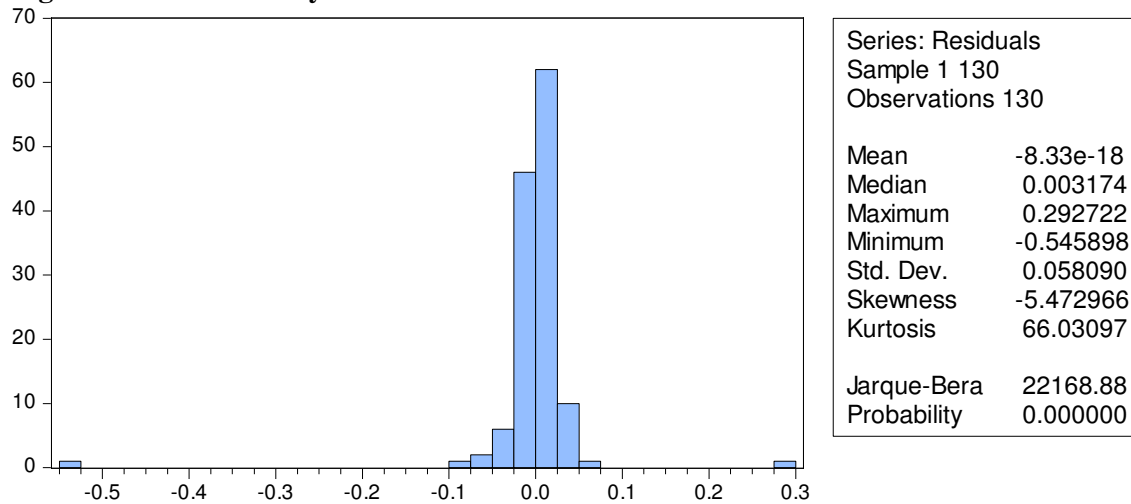
Table 1: Descriptive Statistics

	FPER	ACSIZ	ACIND	ACMEET
Mean	0.016909	5.961538	0.498462	3.761538
Median	0.019232	6.000000	0.500000	4.000000
Maximum	0.307366	6.000000	0.600000	7.000000
Minimum	-0.531254	4.000000	0.400000	1.000000
Std. Dev.	0.058167	0.229723	0.017541	0.994589
Skewness	-5.554005	-6.552005	-2.618830	-0.363437
Kurtosis	66.54299	48.72115	32.03696	4.208978
Jarque-Bera	22539.29	12253.25	4715.631	10.77902
Probability	0.000000	0.000000	0.000000	0.004564
Sum	2.198140	775.0000	64.80000	489.0000
Sum Sq. Dev.	0.436451	6.807692	0.039692	127.6077
Observations	130	130	130	130

Source: E-view 9.0 Output, 2020

The descriptive statistics in table 1 shows the characteristics of the variables from the ten (10) selected deposit money banks that formed the overall sample of the study. As observed, the mean value of the dependent variable Financial Performance (FPER) showed positive and negative values ranging from-0.531254 to 0.307366 suggesting that Financial Performance (FPER) of the selected deposit money banksfor the period under review skewed towards positive and negative. The mean values of all the other independent variables [Audit Committee Size (ACSIZE), Audit Committee Independence (ACIND) and Audit Committee Meeting (ACMEET)] showed positive values with mean values of 5.961538, 0.498462 and3.761538 respectively. The standard deviations of each of the variables showed minimal dispersion (±) from the mean values which are highly desirable. More so, the probability values of the JargueBera test for all factors are significantly lower than the 0.05 indicating that the series are uniformly distributed.

Figure 1   Normality Test

Series: Residuals	
Sample 1 130	
Observations 130	
Mean	-8.33e-18
Median	0.003174
Maximum	0.292722
Minimum	-0.545898
Std. Dev.	0.058090
Skewness	-5.472966
Kurtosis	66.03097
Jarque-Bera	22168.88
Probability	0.000000

Source: Researchers Computation, 2019

  The histogram normality and other descriptive statistics of the regression variables are revealed in the normality test above. The result showed a mean Jarque-Bera test of 22168.88 and associated probability value of 0.000000 which is significantly lower than the 5% level indicating that not all the series are evenly distributed. Thus, the issue of endogeneity arising from the heterogeneous nature of the data are likely evident.

Table 2: Correlation Analysis
Covariance Analysis: Ordinary
Date: 05/07/20   Time: 19:25
Sample: 1 130
Included observations: 130

Correlation t-Statistic Probability	FPER	ACSIZ	ACIND	ACMEET
FPER	1.000000			

ACSIZ	0.002124	1.000000		
	0.024035	-----		
	0.9809	-----		
ACIND	0.006047	0.562325	1.000000	
	0.068410	7.693614	-----	
	0.9456	0.0000	-----	
ACMEET	0.051171	0.027404	0.067675	1.000000
	0.579695	0.310153	0.767418	-----
	0.5631	0.7569	0.4442	-----

Source: Eviews 9 (2019)

Table 2 presents the correlation matrix of variables adopted in the study. The aim is to show how the variables are related among themselves and to also check for possible high correlations which could lead to multicollinearity problem. As observed from the result, a significant positive correlation exists between the dependent variable Financial Performance (FPER) and the variables of Audit Committee Size (ACSIZE) and Audit Committee Independence (ACIND) and Audit Committee Meeting (ACMEET) at 0.002124, 0.006047 and 0.051171 respectively. However, the variables have significant association with the dependent variable of Financial Performance (FPER) at 1% level of confidence. This suggests that all the independent variables move in the same direction with the dependent variable. It is also observable that the issue of high-correlation is not evident among the variables as none of the correlation coefficients is above 0.90.

Diagnostic Tests

To ensure reliability and validity of the empirical results, some diagnostic tests were conducted. In order to test for the presence of multicollinearity in the model, the Variance Inflation Factor (VIF) was carried out, the Hereroskedasticity test was conducted using Breusch-pagan-Godfrey test.

Table 3: Variance Inflation Factors

Variance Inflation Factors
Date: 05/07/20   Time: 19:26
Sample: 1 130
Included observations: 130

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
ACSIZ	0.000742	994.1424	1.462679
ACIND	0.127801	1196.327	1.468305
ACMEET	2.720273	15.48794	1.004769
C	0.025656	965.4153	NA

Source: Eviews 9 (2019)

The result of the variance inflation factor in Table 3 shows the absence of multicolinearity. The centered VIF values of the explanatory variables are far below the benchmark of 10. The explanatory variables of Audit Committee Size (ACSIZE) reported a centered VIF of 1.462679; Audit Committee Independence (ACIND)1.468305 and Audit Committee Meeting (ACMEET)1.004769. All the variables of the model recorded a centered VIFs that are not substantially different from 1.00 and are not indicative of the problem of multicollinearity.

Table 4: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.318722	Prob. F(3,126)	0.8118
Obs*R-squared	0.979091	Prob. Chi-Square(3)	0.8063
Scaled explained SS	29.90664	Prob. Chi-Square(3)	0.0000

Source: Researcher's Compilation (2019)

The test for Heteroskedasticity is presented in Table 4. It checks for the presence of non-constant variable leading to the breakdown of the BLUE properties in which the efficiency and consistency property may be lost. The decision rule is to conclude that there is no Heteroskedasticity if the F-statistic values are respectively greater than the critical values at 5% level. In the absence of this (i.e. if the critical values at 5% is greater than the F-statistic and observed R-square value), we conclude that there is Heteroskedasticity. As shown in Table 4, the p-value (3.12%) of the corresponding observed chi-square value is greater than 5%. Hence, we accept the null hypothesis of heteroskedasitic error term which is desirable. The implication of this is that the regression results can be applied reliably.

Estimation Results

The fixed effect and random effect model estimation technique were to be adopted. However, in order to ascertain the one that is most appropriate. The Hausman's Test was applied; the result obtained is show below:

Table 5: Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	0.457485	3	0.9281

Period random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
ACSIZ	0.003371	0.000158	0.000061	0.6809
ACIND	0.048882	0.014666	0.016917	0.7925
ACMEET	0.002998	0.002987	0.000001	0.9931

Source: Author's Computation (2019)

Null Hypothesis: Random effect model is not desirable
Alternative Hypothesis: Random effect model is desirable.
Decision Rule: Accept null if product is greater than 5%.
            Accept alternative if product is less than 5%.
From the result of the Hausman Test, the chi-square statistics has a value of 0.45 and the corresponding p-value is greater than 5%. Hence, the null hypothesis was accepted. This implies that the random effect model is most appropriate for the study, (see appendix) in order to provide a comprehensive overview of the results.

Table 6: Regression Results

Dependent Variable: FPER
Method: Panel EGLS (Period random effects)
Date: 05/07/20   Time: 19:17
Sample: 2006 2018
Periods included: 13
Cross-sections included: 10
Total panel (balanced) observations: 130
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACSIZ	0.000158	0.027521	0.005734	0.9954
ACIND	0.014666	0.362111	0.040502	0.9678
ACMEET	0.002987	0.005259	0.568071	0.5710
C	-0.002580	0.162299	-0.015897	0.9873

Effects Specification		S.D.	Rho
Period random		0.007135	0.0144
Idiosyncratic random		0.059052	0.9856

Weighted Statistics			
R-squared	0.002678	Mean dependent var	0.015795
Adjusted R-squared	-0.021068	S.D. dependent var	0.057847
S.E. of regression	0.058453	Sum squared resid	0.430516
F-statistic	0.112759	Durbin-Watson stat	1.832603
Prob(F-statistic)	0.952503		

Unweighted Statistics			
R-squared	0.002619	Mean dependent var	0.016909
Sum squared resid	0.435308	Durbin-Watson stat	1.838249

Source: Researcher's Computation via Eviews 9 (2019)

As shown in the above table, the R-squared coefficient of determination stood at 0.002678 which indicates that the model explains about less than 1% of the systematic variations in the dependent variable Financial Performance (FPER). The Adjusted R^2 which controls for the effect of inclusion of successive explanatory variables on the degrees of freedom was -0.021068 meaning that about over 99% of the systematic variations in Financial Performance (FPER) were not explained by the model after adjusting for the degree of freedom. However, the proportion of the variation not captured by the model has been addressed by the error term. The F-statistics value and the associated p-value stood at 0.112759 and 0.952503 respectively indicating that the hypothesis of a joint statistical significance of the model cannot be rejected as 5% level of significance and the linearized specification of the model can be assumed as appropriate.

The evaluation of the slope coefficients of the independent variables revealed the existence of positive relationship between Audit Committee Size (ACSIZE) and the dependent variable Financial Performance (FPER) as depicted by the slope coefficient of 0.000158. Similarly, the other

independent variables of Audit Committee Independence (ACIND) and Audit Committee Meeting (ACMEET) havepositive relationships of 0.014666 and 0.002987 respectively with the dependent variable Financial Performance (FPER) as shown in the table. It is worthy to note that none the variables [Audit Committee Size (ACSIZE), Audit Committee Independence (ACIND) and Audit Committee Meeting (ACMEET)]passed the significance test at 5% levelduring the period under review as depicted by the findings of this study. Lastly, the Durbin-Watson value of 1.83 suggests that there is no evidence of autocorrelation among the error term.

Test of Hypotheses

The employed hypotheses are statistically tested below as shown in their null form. The study sets its decision rule for the acceptance of the hypothesis at 5% level of significance; hence, the null hypothesis would be rejected if the probability value is less than 5% (0.05). The following are the results of the tested hypothesis:

Hypothesis One:

H_{01}: There is no significant relationship between audit committee size and financial performance in deposit money banks.

The first hypothesis of the study seeks to justify if there is significant relationship between Audit Committee Size (ACSIZE) and Financial Performance (FPER). Utilizing the regression output in the previous table, and judging by the significance level of 0.9954 which is greater than the 0.05 significance level as depicted in the regression Table 6, the study therefore accept the alternative hypothesis and reject the null. This can be concluded that there is no significant relationship between audit committee size and financial performance in among selected deposit money banks in Nigeria during the period of the study.

Hypothesis Two:

Ho_2: There is no significant relationship between audit committee independence and financial performance in deposit money banks.

In the second hypothesis, the study seeks to clarify whether or not there is a significant relationship exists between Audit Committee Independence (ACIND) and Financial Performance (FPER). Based on the regression result in table 6, Audit Committee Independence (ACIND) was positively and insignificantly related to Financial Performance (FPER). It had a p-value of 0.9678 which is far greater than the critical value of 0.05. Hence, the null hypothesis as stated is accepted. This means that there is no significant relationship between audit committee independence and financial performance in deposit money banks.

Hypothesis Three

H_{03}: There is no significant relationship between audit committee independence and financial performance in deposit money banks.

The third hypothesis of the study seeks to determine whether or not a significant relationship exists between Audit Committee Meeting (ACMEET) and Financial Performance (FPER). Based on the regression output in the previous table 6, and judging by the significance level of 0.5710 which is far less than the 0.05 significance level as depicted in the regression. The study therefore rejects the null hypothesis and concludes that there is no significant relationship between audit committee independence and financial performance in deposit money banks during the period of the study.

Conclusion and Recommendations
Conclusion

This study examines audit committee attributes and financial performance in deposit money bank. The model was regressed to analyze the existence of significant relationships between the dependent (Financial Performance (FPER) and independent variables [Audit Committee Size (ACSIZE), Audit Committee Independence (ACIND) and Audit Committee Meeting (ACMEET)]. The study utilized ten(10) deposit money bank quoted of the Nigeria Stock Exchange that have maintained 2006 to 2018 annual financial reports. In identifying the possible determinants that would influence financial performance of deposit money banks; we conducted descriptive statistics, correlation and firm observable estimation of the regression result. Specifically, we studied the relationship between audit committee size, audit committee independence,audit committee meeting and financial performance of deposit money banks.

The results showed that there is a positive and insignificant relationship between Audit Committee Size (ACSIZE), Audit Committee Independence (ACIND) and Audit Committee Meeting (ACMEET), hence the selected variables of Audit Committee Size (ACSIZE), Audit Committee Independence (ACIND) and Audit Committee Meeting (ACMEET) exhibit positive relationship between financial performance of deposit money banksbut not statistically significant.

Recommendations

In light of the foregoing discussions, it is our opinion and recommendation that the following should be put in place.

1. It is recommended that audit committee be constituted by independent persons,with high level of integrity that can match words with action to improve performance of deposit money banks in Nigeria.
2. The study recommends an increase in the number of external shareholders in the audit committee, as this will enhance financial performance.
3. It is also recommended that audit committee should meet as many times as possible to be able to carry-out their prescribed roles and functions which in-turn strengthens the significant relationship between audit committee meeting and financial performance.

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APPENDIX

Dependent Variable: ROA
Method: Least Squares
Date: 05/07/20   Time: 19:24
Sample: 1 130
Included observations: 130

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACSIZ	-0.000271	0.027245	-0.009958	0.9921
ACIND	0.010607	0.357492	0.029670	0.9764
ACMEET	0.002982	0.005216	0.571686	0.5686
C	0.002023	0.160176	0.012632	0.9899

R-squared	0.002626	Mean dependent var	0.016909
Adjusted R-squared	-0.021121	S.D. dependent var	0.058167
S.E. of regression	0.058778	Akaike info criterion	-2.799827
Sum squared resid	0.435305	Schwarz criterion	-2.711595
Log likelihood	185.9887	Hannan-Quinn criter.	-2.763975
F-statistic	0.110581	Durbin-Watson stat	1.835841
Prob(F-statistic)	0.953782		

	ROA	ACSIZ	ACIND	ACMEET
Mean	0.016909	5.961538	0.498462	3.761538
Median	0.019232	6.000000	0.500000	4.000000
Maximum	0.307366	6.000000	0.600000	7.000000
Minimum	-0.531254	4.000000	0.400000	1.000000
Std. Dev.	0.058167	0.229723	0.017541	0.994589
Skewness	-5.554005	-6.552005	-2.618830	-0.363437
Kurtosis	66.54299	48.72115	32.03696	4.208978
Jarque-Bera	22539.29	12253.25	4715.631	10.77902
Probability	0.000000	0.000000	0.000000	0.004564
Sum	2.198140	775.0000	64.80000	489.0000
Sum Sq. Dev.	0.436451	6.807692	0.039692	127.6077
Observations	130	130	130	130

Series: Residuals	
Sample 1 130	
Observations 130	
Mean	-8.33e-18
Median	0.003174
Maximum	0.292722
Minimum	-0.545898
Std. Dev.	0.058090
Skewness	-5.472966
Kurtosis	66.03097
Jarque-Bera	22168.88
Probability	0.000000

Covariance Analysis: Ordinary
Date: 05/07/20   Time: 19:25
Sample: 1 130
Included observations: 130

Correlation
t-Statistic

Probability	ROA	ACSIZ	ACIND	ACMEET
ROA	1.000000			

ACSIZ	0.002124	1.000000		
	0.024035	-----		
	0.9809	-----		
ACIND	0.006047	0.562325	1.000000	
	0.068410	7.693614	-----	
	0.9456	0.0000	-----	
ACMEET	0.051171	0.027404	0.067675	1.000000
	0.579695	0.310153	0.767418	-----
	0.5631	0.7569	0.4442	-----

Variance Inflation Factors
Date: 05/07/20   Time: 19:26
Sample: 1 130
Included observations: 130

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
ACSIZ	0.000742	994.1424	1.462679
ACIND	0.127801	1196.327	1.468305
ACMEET	2.720273	15.48794	1.004769
C	0.025656	965.4153	NA

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.318722	Prob. F(3,126)	0.8118
Obs*R-squared	0.979091	Prob. Chi-Square(3)	0.8063
Scaled explained SS	29.90664	Prob. Chi-Square(3)	0.0000

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 05/07/20   Time: 19:27
Sample: 1 130
Included observations: 130

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.006098	0.074463	-0.081899	0.9349
ACSIZ	0.002374	0.012666	0.187413	0.8516
ACIND	0.007937	0.166192	0.047759	0.9620
ACMEET	-0.002302	0.002425	-0.949563	0.3442

R-squared	0.007531	Mean dependent var	0.003349
Adjusted R-squared	-0.016099	S.D. dependent var	0.027107
S.E. of regression	0.027325	Akaike info criterion	-4.331765
Sum squared resid	0.094077	Schwarz criterion	-4.243533
Log likelihood	285.5647	Hannan-Quinn criter.	-4.295914
F-statistic	0.318722	Durbin-Watson stat	2.014198
Prob(F-statistic)	0.811819		

Dependent Variable: ROA
Method: Panel Least Squares
Date: 05/07/20   Time: 19:17
Sample: 2006 2018
Periods included: 13
Cross-sections included: 10
Total panel (balanced) observations: 130

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACSIZ	-0.007714	0.026575	-0.290268	0.7721
ACIND	-0.072300	0.354693	-0.203840	0.8388
ACMEET	-0.000564	0.005292	-0.106488	0.9154
C	0.101054	0.160648	0.629039	0.5306

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.172776	Mean dependent var	0.016909
Adjusted R-squared	0.087932	S.D. dependent var	0.058167
S.E. of regression	0.055550	Akaike info criterion	-2.848415
Sum squared resid	0.361043	Schwarz criterion	-2.561662
Log likelihood	198.1470	Hannan-Quinn criter.	-2.731898
F-statistic	2.036408	Durbin-Watson stat	2.134731
Prob(F-statistic)	0.026750		

Dependent Variable: ROA
Method: Panel EGLS (Period random effects)
Date: 05/07/20   Time: 19:17
Sample: 2006 2018
Periods included: 13
Cross-sections included: 10
Total panel (balanced) observations: 130
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACSIZ	0.000158	0.027521	0.005734	0.9954
ACIND	0.014666	0.362111	0.040502	0.9678
ACMEET	0.002987	0.005259	0.568071	0.5710
C	-0.002580	0.162299	-0.015897	0.9873

Effects Specification			
		S.D.	Rho
Period random		0.007135	0.0144
Idiosyncratic random		0.059052	0.9856

Weighted Statistics			
R-squared	0.002678	Mean dependent var	0.015795
Adjusted R-squared	-0.021068	S.D. dependent var	0.057847
S.E. of regression	0.058453	Sum squared resid	0.430516
F-statistic	0.112759	Durbin-Watson stat	1.832603
Prob(F-statistic)	0.952503		

Unweighted Statistics			
R-squared	0.002619	Mean dependent var	0.016909
Sum squared resid	0.435308	Durbin-Watson stat	1.838249