

Audit Committee Characteristics and Financial Performance: A study of Listed Non-Financial Companies in Nigeria

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ABSTRACT: *This study examines the impact of audit committee characteristics (AC) on financial performance of listed non-financial companies in Nigeria from 2013-2020. A sample of seventy-six (76) companies listed as non-financial was drawn from the population of one hundred and thirteen (113) companies. Audited annual reports and accounts were used for data extraction. The analysis was done using descriptive statistics and multiple regressions. Explanatory research designed was adopted in the study to find out the impact of AC on financial performance. Variables used include AC proxy by ACIND, ACS and ACM as the proxies for independent variable and financial performances' accounting and market based measures proxy by EPS and Tobin's Q was used as the dependent variable. Robustness tests such as multicollinearity test, heteroscedasticity test, normality test and hausman specification test were conducted to validate the results. The study revealed that there is negative significant relationship ACIND and EPS, TQ and ACS has a significant relationship with EPS positively while a negative with TQ and lastly, ACM reported a positive significant relationship with EPS and a positive but not significant with TQ of listed Non-financial companies in Nigeria during the study period. Based the on the findings of the study, the study recommends that the management of the listed non-financial companies in Nigeria should ensure that AC should be made more effective by ensuring that members are made up of independent non-executive directors and the size of the AC should be optimal and lastly ensure that AC meetings are to be tailored towards relevant issues that enhance financial performance of the firm.*

KEYWORDS: *audit committee, EPS, Tobin's Q, firm size, firm leverage, board size*

INTRODUCTION

Performance of corporate bodies is the primary objective of every profit-oriented organization. Financial performance of any organization is a critical element for its survival which is an index for evaluating its effectiveness but globally over the years there have been many evidence of financial crises, accounting and auditing scandals such as those at Enron, WorldCom, Global

crossing, HIH Insurance and Parmalat and the cases in Nigeria include; Uniliver Plc, Cadbury Nigeria Plc, Nigeria bank credit scam and African Petroleum Plc (Forte oil plc). These scandals have emerged to a serious devastating effect on stakeholders in terms of losses in their investments which have a serious effect on the financial performance which lead to the collapse of many companies involved. The scandals have raised concern among researchers, governments, regulators and investors which could be traced directly to poor corporate governance (CG).

AC is considered by prior studies as one of the most important CG mechanisms to minimize information asymmetry through reviewing and monitoring managers' actions, enhancing the reporting process and disclosure, and improving auditing and internal control (Li, Mangena, & Pike, 2012). On the other hand, agency theory states that AC aids in reducing agency conflicts and information asymmetry problems between managers and shareholders. Agency problem is and will be there as long as there is the existence of corporate type of organization. Not only agency problem but also the failure of different instrument of CG creates so many problems. An AC is one of the important mechanisms for minimizing these types of problems. It is expected to satisfy the need of both internal and external users of financial statements. Similarly, the formation of an AC has a lot of value to different types of users which ensure the credibility of the financial information.

Section 359(3) -(6) of CAMA 1990 (as amended 2004) requires every limited company in Nigeria to constitute an AC with membership equally shared between management and the shareholders. The law stipulates a maximum membership of six (6) as the AC and at least 1 executive director on the board. AC are monitoring mechanisms that improve information flow between the agent and the stakeholders in an organization and thereby reducing agency cost which will lead to increase in value since cost has been reduced and therefore, it's expected that AC may have a role to play on financial performance.

The effectiveness of AC depends on how independent, experienced and well-resourced of the members of the committee. The study focused on the three most common AC characteristics namely; AC independence, AC size and AC meetings. The first category is the independence of the members of the AC which is among the most important criterion that has effect on the reliability of financial statements. An independent AC member monitors and supervises the business operations because the member has no personnel or any economic benefit with the business. An independent member adds value and help in monitoring and improving the committee's ability which can help to improve financial performance.

The second category is the size of the AC. Increasing the number of members in the committee would allow professionals with wider knowledge to oversee internal financial activities and control firms' reporting. Moreover, larger audit committees would normally comprise members with different characteristics. On the one hand, the increased number of members is argued to provide more effective monitoring and thus improve firms' performance.

The third category is AC meetings frequency, AC members that attend meetings regularly are more likely to become aware of financial reporting issues and would be able to detect fraud that may eventually affect the quality of reported earnings and will increase the firm performance. This will also decrease the information asymmetry and promote more effective functioning of the committee. It is expected that more active audit committees that meet often will be more effective monitoring bodies. The present study goes a step further by examining the role of AC on financial performance of listed non-financial companies in Nigeria.

Most of the previous studies on AC and financial performance focused on single industry and some used primary data like the study of Al-matari, Al-swidi, Fadzil and Al-matari, 2012; Modum, Ugwoke and Onyeonu, 2013; Ojeka, Iyoha and Obigbemi, 2014; Farouk and Hassan 2014; Amer, Ragab and Shehata, 2014; Aryan, 2015; Kipkoech, 2016; Zabochnikova, 2016; Gurusamy, 2017; Sujatha, Muninarayan and Satyanarayana, 2017; Muchiri and Jagongo, 2017; Nuhu, Umaru and Salisu, 2017; Maina, Oluoch, 2018; Orjinta and Evelyn, 2018; Zraig and Fadzil, 2018; Nor, Nawawi and Salin, 2018; Ahmed and Ombaba, 2019; Oudat, Ali and Qeshta, 2021. The findings of the study cannot be applicable to all companies because most of the previous studies ignored the contribution of audit committee in different types of firms to financial performance. The results of such studies are therefore less reliable and certainly cannot be generalized over the whole sectors of the economy. The use of large and industrially diverse companies permits a more comprehensive exploration of the impact of the audit AC upon financial performance and these companies represent a large share of aggregate market capitalization and therefore receive great interest among regulators and investors. In light of the foregoing the following research questions are raised;

- i. What is the impact of ACIND on the financial performance of listed non-financial companies in Nigeria?
- ii. What is the impact of ACS on the financial performance of listed non-financial companies in Nigeria?
- iii. What is the impact of ACM on the financial performance of listed non-financial companies in Nigeria?

The remainder of the paper is structured into four parts as follows: Section two (2) provides literature on AC on financial performance. Section three (3) presents methodology of the study. Section four (4) presents results and discussion and lastly section five (5) discusses conclusion and recommendations.

LITERATURE REVIEW

Concept of AC

The Sarbanes-Oxley Act (SOX 2002, section 2) define an AC as a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of

the issuer. AC is a subcommittee of the board; the primary duty of AC is to oversee the firm's financial reporting process, including the integrity of financial statements, the effectiveness of internal controls and the monitoring of both internal and external auditors. It enhances the board of director's capacity to act as a monitor of management by providing more detailed knowledge and understanding of financial statements of the company (Nuhu, *et.al*, 2017).

Concept of Financial Performance

Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished (Nuhu, *et.al*, 2017). This study viewed financial performance as the process of measuring the results of a firm's policies and operations in monetary aspects. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Therefore, this paper focused on both accounting and market based measures of financial performance using EPS and Tobin's Q to capture the impact of AC on both operating performance(EPS) and future performance(TQ) of listed non-financial companies in Nigeria.

Theoretical Review

It is evidence in the literature that the principal-agent theory is generally considered the starting point for any debate on the issue of CG. There are many theories that explain the relationship between AC and financial performance in the literature of accounting. This paper made use of agency theory to anchor the study as it is relevant in resolving conflict of interest between management and owners. Agency theory addresses the issue in which one party (the principal) delegates work to another party (the agent), who carry out the work. Agency theory supports the delegation and the concentration of control in the board of directors and use of compensation incentives (Salleh, Stewart & Manson, 2006). The boards of directors' monitor agents through communication and reporting, reviewing and auditing and the implementation of codes and policies.

Empirical Review

Various authors have studied the influence of AC as an instrument of good CG on financial performance for example, Oudat, Ali and Qeshta, (2021) investigate the association of AC characteristics and financial performance among services sector corporation-listed in Bahrain Stock Exchange. The corporations listed on the Bahrain Stock Exchange for the period from 2012 to 2019 are examined. Linear panel regression method was employed. However, the AC characteristics represented by ACFEXP, ACIND, ACSIZE and ACFM are proxies to the independent variables and ROA, ROE and EPS are proxies to financial performance as the dependent variables. Corporation's size, leverage and age are examined as control variables. The results of the study reveals that there is significant relationship between ACIND, ACMEET, FSIZE and the performance (ROA, ROE and EPS). There is no statistical significance between the ACFEXP, ACSIZE, FAGE and performance (ROA, ROE and EPS), the LVRGE have an impact on EPS but not on ROA, ROE.

Similarly, Azam and wang (2021) study the influence of the characteristics of the AC on firm value of listed non-financial firms in Palestine. Secondary data collected from a list of companies

were registered in the Palestine Stock Exchange from 2011 to 2018. The sample size of the study was 34 companies and the study used expo-facto research design. Individual variables considered are the independence and expertise of the audit committee, whereas the ROA is employed as the dependent variable as an indicator of a firm's value. The study controlled for industry type and firm leverage. The results showed that the audit committee's independence and expertise substantially positive with ROA and for the control variables there is positive relationship between leverage, industry type with ROA.

On the other hand, Ashari and Krismiaji (2020) investigate the effect of AC characteristics, which includes independence (ACIN), size (ACSIZE), competence (ACCO), and frequency of meetings (ACMT) on the financial performance (PERF) measured and proxy with the return on assets (ROA) of manufacturing firms listed on the Indonesian stock exchange for the year of 2016 and 2017. The study uses the non-probability sampling (purposive sampling) method to choose samples and the samples are retrieved from 662 listed manufacturing company's population listed data is obtained from the Indonesian capital market directory (ICMD) and the website of sampled company. The study also uses three control variables, which are the quality of auditors (BIG4), financial leverage (LEV) and company size (SIZE). The study finds that all of the characteristics of AC positively affect the company's performance and for the control variables BIG4 and LEV positively affect the company's financial performance, while the financial performance of the company is negatively affected by SIZE.

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

In an attempt to establish the effect of AC characteristics on financial performance between the period of 2011-2016, Ahmed and Ombaba (2019) considered banking and insurance firms listed in Nairobi securities exchange, Kenya. The study was guided by the agency and stakeholder theories and adopted an explanatory research design. Using census sampling design, a total of 20 banking and insurance firms were included in the study. The study used secondary data collected through extraction from financial reports. Data was coded and thereafter analyzed using statistical package for social sciences (SPSS) program and presented using tables. The study employed both descriptive and inferential statistics in data analysis and the results indicated a positive significant influence of AC independence, AC financial expertise on financial performance of listed banks and insurance companies in Nairobi. This can be interpreted to mean that the number of

independent AC and financial experts should be higher in order for a company to report a better performance.

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

Furthermore, in Nigeria, Osemene and Fakile (2019) aims to find out how the effectiveness of an AC impacts financial performance of listed deposit money banks in Nigeria. Using return on equity (ROE) as measure of financial performance, independence, financial expertise and frequency of meetings to proxy AC characteristics. Correlation and ordinary least squares (OLS) regression were used to estimate the relationship between AC characteristics and financial performance. Findings revealed that AC financial expertise and AC meetings significantly influence deposit money banks' financial performance with the exception of AC independence which is negatively significant. The study used secondary data which from the annual reports of the selected banks for a period of five years from 2013 to 2017 using 9 banks out of 21 by random sampling technique.

In a study of 51 listed industrials firms in Amman stock exchange, Pakistan to investigate the relationship between AC characteristics (size, independence, meeting and financial expertise) and the profitability for the period of five years (2013 to 2017). Oroud, (2019) theoretically founded on both the agency theory and the resource dependence theory. To examine the developed model, the data were gathered from the annual reports of the firms. Based on the panel data results, the fixed-effect model was used to examine the effect of the experimental variables on profitability, measured by return on investment (ROI) and return on equity (ROE). The results show that the AC characteristics have a significant effect on profitability of the industrial companies listed on the ASE.

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

The results of 100 French companies listed on the Paris stock exchange form 2007-2015 by Bouaine and Hrichi (2019) shows that establishment of the committee has no significant effect on the company's performance. The independence of the AC has a negative impact on the performance measured by ROE and ROA. It's explained by high professional fees asked from

independent members of board which has a negative impact on the performance. Furthermore, the study concluded that the size, the financial expertise and the diligence of the audit committee have no impact on the financial performance of listed French companies when the performance measured by ROE on the other side, the size and diligence of AC have a negative impact on performance as measured by the ROA.

To contribute to the debate, Alqatamin (2018) investigate the effect of AC characteristics on the company's performance. The sample consists of 165 non-financial companies listed on the Amman stock exchange (ASE), Pakistan over the period 2014-2016. The results of the study show that the AC size, independence and gender diversity have a significant positive relationship with 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 AC characteristics and CG mechanisms to enhance the company's performance.

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

In another study by Orjinta and Evelyn (2018) examine the effect of AC 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 there is a significant positive relationship between AC independence, AC meeting and firm performance at 5% level of significant while a positive significant association was also recorded against AC size and return on assets 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. The findings show that 76% of changes in the performance of non-financial firms can be attributed to the audit committee characteristics while 24% were unaccounted for hence captured by the stochastic error term.

Zraiq and Fadzil (2018) attempted to contribute to the debate by examining the association between AC and firm performance of the Jordanian firms. Using OLS regression to test the relationship between independent variable and dependent variable. The data comprised of 228 firms industrial and services. The findings indicated a positive direction but insignificant

relationship between AC size and ROA, whereas, AC size with EPS has positive direction and significant. Furthermore, the result shows AC meetings have significant and positive direction with ROA. Correspondingly, AC meetings with EPS represent positive direction but insignificant.

From the foregoing, the empirical study results on AC and financial performance link have never been in agreement, as some determined positive correlation, some studies determined negative correlation, while others determined no correlation at all with majority of the results with positive correlation and this may be as a result of proxies of financial performance used in the previous studies as some focused on accounting based measures only and others focused on market based measures of financial performance only and in order to contribute to the debate the current study focused on both accounting and market measure of financial performance. The current study also observed that AC (which is an attributes of good governance) reduces information asymmetry between the agent and the principal and this lead to a reduction in agency cost and as result of that some investors may be willing to invest in companies with good governance and thus lead to lower cost of capital and in long run increases performance.

METHODOLOGY

The study employs descriptive research design to assess the impact of AC on financial performance of listed non-financial companies in Nigeria. Data were obtained from annual report and account of the companies as well as the fact book of Nigerian Stock Exchange for the period of eight years from 2013 to 2020. The population of this study comprised of all the non-financial companies listed on the Nigerian Stock Exchange (NSE) as at 31st December, 2020. There are one hundred and thirteen (113) non-financial companies listed on NSE as at 31st, December, 2020. The companies are categorized into ten (10) sub-sectors such as agriculture, conglomerates, construction, consumer goods, health care, ICT, industrial, natural resources, oil and gas and services companies. In common with most studies in this area this study excludes all financial firms, categorically, insurance companies and banks, as they have different regulatory environments as well as different reporting conventions to other companies. The decision to use the largest 76 firms was made because these firms represent a large share of aggregate market capitalization and therefore receive great interest among regulators and investors. The focus on these larger firms is also likely to be more effective in allowing the study to check the impact of AC on financial performance of listed non-financial companies in Nigeria. This study employed census sampling technique where all members of the population are to be considered but due to some limitation the following filters are applied.

- i. Companies must be listed on or before 2013 because the time scope of the study is from 2013 to 2020.
- ii. Companies must have complete data for the study period thus; seventy-six (76) companies met the requirements and are the sample size of the study.

Variables of the Study and their Measurement

The means by which the various variables adopted in this study are measured or computed are shown in Table 3.1

Table 3.1: Variables and their Measurement

| Variables | Abbreviation | Measurement |
|------------------------------|--------------|---|
| Dependent Variable | | |
| Financial performance | EPS | Net profit after tax divided by outstanding shares as used by Oudat, <i>et.al</i> , (2021) |
| | TQ | Market value of shares divided by book value of shares as used by Ali and Amir (2019) |
| Independent Variables | | |
| Audit committee independence | ACIND | As the percentage of independent directors of the total number of directors on the AC of a company as used by Awwad, <i>et.al</i> , (2020) |
| Audit committee size | ACS | The size of AC measured using the total members of the audit committee as used by Awwad, <i>et.al</i> , (2020) |
| Audit committee meetings | ACM | As a dummy variable; 1 if company holds at least four meetings during the fiscal year and 0 otherwise as used by Awwad, <i>et.al</i> , (2020) |
| Control Variables | | |
| Leverage | LEV | Leverage was measured as the total debt /total asset as used by Ali and Amir (2019) |
| Board Size | BS | Total number of directors on the board of the organization as used by Ojeka, <i>et.al</i> , (2014) |
| Firm Size | FS | As the Log of total asset as used by Ali and Amir (2019) |

Source: Generated by the Researcher from Empirical Literature, 2021

Model Specification

The model below is to find out the impact of audit committee on financial performance of non-financial companies which is a modification of Awwad, *et.al*, (2020).

$$EPS_{it} = \alpha_0 + \beta_1 ACIND_{it} + \beta_2 ACS + \beta_3 ACM_{it} + \beta_4 LEV_{it} + \beta_5 BSIZE_{it} + \beta_6 FS_{it} + \epsilon_{it} \dots (i)$$

$$TQ_{it} = \alpha_0 + \beta_1 ACIND_{it} + \beta_2 ACS + \beta_3 ACM_{it} + \beta_4 LEV_{it} + \beta_5 BSIZE_{it} + \beta_6 FS_{it} + \epsilon_{it} \dots (ii)$$

Where;

EPS= Earnings per Share

TQ= Tobin'sQ

ACIND = Audit Committee Independence

ACSIZE = Audit Committee Size

ACM = Audit Committee Meetings

LEV= Leverage

BS = Board Size

FS = Firm Size

α = Constant Term

β = Coefficient Term

i = No of firms
t = Time Period
e = Error term

RESULT AND DISCUSSIONS

This section presents the results of the analysis of the collected data from the annual report and accounts of the sampled non-financial listed companies in Nigeria. The descriptive statistics, correlation and regression analysis are presented below.

Diagnostic Test of Independent and Dependent Variables

To check and improve the validity and reliability of the data, diagnostic tests has been conducted such as multicollinearity, heteroskedasticity, hausman specification tests.

Table 4.1: Diagnostic Test

| Model | Multicollinearity VIF test | Heteroskadasticity test | Hausman test |
|-------|----------------------------|-------------------------|--------------|
| 1. | 1.13 | 0.0000 | 0.0031 |
| 2. | 1.13 | 0.0000 | 0.0088 |

Source: Generated by the researcher from the Annual Reports and Account of the sampled companies using STATA 16.0

The result in Table 4.1 shows the absence of multicollinearity as the variance inflation factor (VIF), test value is less than 5 in all the model of the study. The mean of the entire VIF test in all the model ranges from 1.13 to 1.13 which proved that is less than 10 and there is absence of multicollinearity. The table also reveals the presence of heteroscedasticity in the ordinary least squares regression results of the models 1 and 2 (0.000 and 0.000) respectively and this indicates that the variability of error terms is not constant and this can affect inferences in respect of beta coefficient, coefficient of determination (R²), t-statistics and F-statistics of the study. Furthermore, the table reveals p-value of 0.0031 and 0.0088 for model 1 and 2 respectively. This means that fixed effect is more efficient as the p-value of the model (1 and 2) in the study is significant i.e less than 5% but the heteroscedasticity shows that coefficient of the error term is not constant for the explanatory variables; therefore, the study corrected this by applying the panel corrected standard error regression (PCSEs) for the models. And also the data for the Tobin's Q, the result indicate presence of outliers and this suggest data transformation to be carried out to eliminate the outliers and therefore, the data for Tobin's Q has been transformed to the natural log.

Table 4.2: Descriptive statistics result

| Variables | Obs. | Mean | Std. Dev | Min | Max |
|-----------|------|-----------|-----------|----------|----------|
| EPS | 608 | 3.112968 | 8.683087 | -22 | 57.63 |
| TQ | 608 | 0.5011926 | 0.5115956 | 0.000144 | 7.0672 |
| ACIND | 608 | 2.817434 | 0.4780782 | 2 | 5 |
| ACS | 608 | 5.578947 | 0.8688368 | 3 | 8 |
| ACM | 608 | 3.817434 | 0.4347644 | 2 | 5 |
| LEV | 608 | 1.328812 | 5.888958 | 0.000372 | 87.72046 |
| BSIZE | 608 | 9.288303 | 2.776774 | 4 | 23 |
| FSIZE | 608 | 10.13637 | 0.8341442 | 7.680181 | 12.86309 |

Source: Generated by the researcher from the Annual Reports and Account of the sampled companies using STATA 16.0

The table shows the descriptive statistics of AC and financial performance as well as those of the control variable LEV, BSIZE and FSIZE. The table also shows the number of observations for each variable is 608. This represents the 76 sampled companies with the study period of 8 years. The result shows that EPS has a mean value of 3.11 with a standard deviation of 8.68, minimum and maximum value of -22 and 57 respectively while TQ has a mean of 0.50 with standard deviation of 0.511 and minimum and maximum value of 0.00 and 7.06 respectively. Similarly, the table shows that the ACIND has a mean value of 2.817 with 0.478 as the standard deviation and the 2 and 5 as the minimum and maximum value respectively. The ACS has a mean value of 5.57 with standard deviation of 0.868 and 3 and 8 as the minimum and maximum values respectively. Moreover, the ACM present a mean value of 3.81 and a standard deviation of 0.434 with a minimum and maximum value of 2 and 5.

The control variables used in the study showed the mean of LEV is 1.32 and a standard deviation of 5.88 with minimum value indicated as .000 and the maximum value of 87.7 means that the level of LEV among the sampled companies differs significantly during the study period. The BSIZE shows a mean value of 9.28 with a standard deviation of 2.77 and a minimum and maximum value of 4 and 23 respectively indicating that the board of firms in non-financial sector differs significantly in size during the study period. The FSIZE has a mean value of 10.13 and a standard deviation of 0.834 respectively. The minimum value and maximum value of the size of the firm during the study period were 7.68 and 12.86 indicating that the size of the firm during the study period does not differ significantly.

Table 4.3: Correlation Matrix of the Independent and dependent Variables

| Variables | EPS | TQ | ACIND | ACS | ACM | LEV | BS | FS |
|-----------|---------|---------|---------|---------|---------|---------|--------|--------|
| EPS | 1.0000 | | | | | | | |
| TQ | -0.2527 | 1.0000 | | | | | | |
| ACIND | 0.0972 | -0.2770 | 1.0000 | | | | | |
| ACS | 0.1153 | -0.2521 | 0.2031 | 1.0000 | 1.0000 | | | |
| ACM | 0.0460 | -0.0766 | 0.1800 | 0.1404 | 0.0577 | | | |
| LEV | 0.1809 | 0.0381 | 0.0524 | -0.0051 | -0.0268 | 1.0000 | | |
| BSIZE | 0.0487 | -0.1928 | -0.0035 | -0.0435 | 0.0155 | -0.0013 | 1.0000 | |
| FSIZE | 0.3884 | 0.4972 | 0.00323 | -0.0766 | 0.0375 | -0.113 | 0.3320 | 1.0000 |

Source: Generated by the researcher from the Annual Reports and Account of the sampled companies using STATA 16.0

From table 4.3 above the relationship between ACIND, ACS, ACM with EPS is found to be positive and moderate with a value 0.0972,0.1153,0.0460 respectively. LEV one of the control variables shows a moderate positive relationship with EPS with a coefficients value of 0.1809 while BSIZE shows positive weak relationship with EPS with a value of 0.0487 and lastly FSIZE documented a coefficient value of 0.3884 indicating a positive relationship with EPS in a stronger direction.

On the other hand, the relationship between ACIND, ACS, with TQ is found to be negative and moderate with a value -0.2770, -0.2521 respectively while ACM and TQ documented a negative but weak correlation with a value of -0.0766. LEV one of the control variables shows a weak positive relationship with TQ with a coefficients value of 0.0381 while BSIZE shows negative moderate relationship with TQ with a value of -0.1928 and lastly FSIZE documented a coefficient value of -0.4972 indicating a negative relationship with TQ in a moderate manner. From the table above, it can be deduced that some of the explanatory variables are positively correlated (move in the same direction) while some are negatively correlated (move in the opposite direction).

4.4 Regression Result on ACIND, ACS, ACM and EPS

Table 4.4 presents the PCSEs Regression result of (Model I).

| Variables | Coefficients | z | p>/t/ |
|------------|--------------|----------|-------|
| ACIND | -1.246609 | -2.29** | 0.022 |
| ACS | 0.5359782 | 3.44*** | 0.001 |
| ACM | 0.9675503 | 1.29 | 0.196 |
| LEV | 0.2959528 | 3.61*** | 0.000 |
| BSIZE | -0.2959528 | -3.51*** | 0.000 |
| FSIZE | 4.827875 | 12.98*** | 0.000 |
| CONS | -43.51167 | - 11.56 | 0.000 |
| R-squared: | 0.2190 | | |
| P-Value | | | 0.000 |

Source: Generated by the researcher from the Annual Reports and Account of the sampled companies using STATA 16.0

*, **, *** Indicates significant@ 10%, 5% and 1% respectively

The cumulative adjusted R^2 is 21% (0.2190), which gives cumulative effect of all independents variables jointly on the dependent variable. This means that 21% of the variation in the EPS is caused by ACIND, ACS, ACM, LEV, BSIZE and FSIZE While 79% of the variation in EPS is caused by other factors not considered in the model of the study. This indicates that the model is fit and the explanatory variables are carefully selected considering the p-value of 0.0000.

Table 4.4 reveals that ACIND has a negative and significant impact on EPS at 5% level of significance whereby ACS has a positive and significant impact at 1% level of significance, ACM has a positive and insignificant impact on EPS .This indicates that the more independent of the AC the lower the financial performance as measured by EPS and the more the ACS and ACM held by non-financial companies in Nigeria the higher the financial performance as measured by EPS of listed non-financial companies in Nigeria during the period of 2013-2020. Evidence shows that if ACIND increases by one unit, financial performance measured by EPS Will decreases by 1.246609 and when ACS and ACM increases by one unit, the financial performance measured by EPS will increases by 0.5359782 and 0.9675503 respectively.

The reason for documenting negative relationship between ACIND and financial performance measured by EPS can be as a result of usually, independent directors suffers from having inadequate knowledge of the firm that can lead to wrong advice and consequently poorer the performance. This finding is in line with the findings of Moddum, *et.al*, (2013), Amer, *et.al*, (2016), Zabochnikova, (2016), Isac, *et.al*, (2020) and contrary to the findings of Oudat, *et.al*, (2021), Azam and Wang, (2021) and also this result is inconsistent with the agency theory which emphasizes the independence of boards and committees in order to reduce the agency costs.

The positive relationship between ACS and financial performance measured by means of EPS implies that when ACS is large the firm may benefit from the diverse skill and experience on the part of the AC members and will leads to more commitment and monitoring on the part of the of the committee, thereby decreasing the possibility of an organization to incur losses through non-adherence to accounting principles and unnecessary waste of funds by management and thereby increases financial performance measured by EPS of listed non-financial companies in Nigeria. The finding is consistent with the study of Oudat, *et.al*, (2021), Azam and Wang, (2021) and disagrees with the findings of Isac, *et.al*, (2020) that documented a negative relationship between ACS and financial performance of companies in Ghana.

Furthermore, pursuant to the expectations, the study documented a positive relationship between ACM and financial performance measured by EPS of listed non-financial companies in Nigeria during the study period of 2013-2020. This is in line with the resource dependence theory that predicts the higher level of firm performance is associated with higher frequency of the AC meetings. A positive relationship can be explained by more meetings lead to spending plenty time to discover potential risk, enhance reporting process, responsibility to monitor and supervise mangers which will lead to an improvement in financial performance measured by EPS. The finding is in line with agency theory, Ashari and Krismiaji, (2020), Oudat, *et.al*, (2021) and opposite to the finding of Isac, *et.al*, (2020)

Leverage is found to have positive and significant impact on financial performance measured by EPS at 1% level of significance. This indicates that when leverage of listed non-financial companies increases the EPS will increase by 1.1944554. The finding of the study is in line with the findings of Amer, *et.al*, (2014), Badhabi, (2016) while some studies documented negative relationship such as Al-matari, *et.al*, (2012), Al-matari, *et.al*, (2014).

Board size is found to have negative and significant impact on financial performance measured by EPS of listed non-financial companies in Nigeria. This implies that as board increases in size this would definitely affect financial performance negatively. The findings of this study challenged the argument that quality of decision made and the diverse experiences of board aids in improving overall performance. The findings support the findings of O'Connell and Cramer (2010) that reported a negative relationship between board size and financial performance of listed non-financial firms for the period of 2001. Also Ghabayen (2012) in Saudi Arabia documented a negative relationship between board size and financial performance measured by ROA of non-financial listed companies. However, the findings do not support the findings of Ojeka, *et.al*, (2014).

Firm size shows a positive and significant impact on financial performance as measured by EPS of listed non-financial companies in Nigeria during the period 2013-2020. The result of the study agrees with the economies of scale theory that larger firm have the advantage of producing at a lower cost and consequently increases financial performance. The finding is in line with the results documented by Emeka and Okeke, (2019); Ogoun and Ekpulu (2020) and contrary, to the findings of Emeka and Benjamin (2019) that documented a negative relationship between firm size and financial performance of listed non-financial firms in Nigeria.

Hypothesis Testing on ACIND, ACS, ACM and EPS

H0₁: ACIND does not have significant impact on EPS of non-financial companies in Nigeria.

Based on the regression result, the variable is found to be significantly impacting on EPS. Hence, the null hypothesis is rejected and the hypothesis that there is a significant relationship between ACIND and EPS stands.

H0₂: ACS does not have significant impact on EPS of listed non-financial companies in Nigeria.

Based on the regression result, the variable is found to be significantly impacting on EPS. Hence, the null hypothesis is rejected and the hypothesis that there is a significant relationship between ACS and EPS stands.

H0₃: ACM does not have significant impact on EPS of listed non-financial companies in Nigeria.

Based on the regression result, the variable is found not to be significantly impacting on EPS. Hence, the null hypothesis is accepted and the hypothesis that there is a significant relationship between ACM and EPS is rejected.

4.5 Regression Result on ACIND, ACS, ACM and TQ

Table 4.5 presents the PCSEs Regression result of (Model IV).

| Variables | Coefficients | z | p>/z/ |
|------------|--------------|----------|-------|
| ACIND | -0.0740845 | -2.60*** | 0.009 |
| ACS | -0.1099134 | -7.77*** | 0.000 |
| ACM | 0.0340458 | -1.83* | 0.067 |
| LEV | 0.0009455 | -0.28 | 0.783 |
| BSIZE | -0.0060175 | -1.11 | 0.266 |
| FSIZE | -0.265724 | -6.05*** | 0.000 |
| CONS | 3.250285 | 7.61 | 0.000 |
| R-squared: | 0.2932 | | |
| P-Value | | | 0.000 |

Source: Generated by the researcher from the Annual Reports and Account of the sampled companies using STATA 16.0

*, **, *** Indicates significant@ 10%, 5% and 1% respectively

The cumulative adjusted R^2 is 30 (0.2932) which gives cumulative effect of all independents variables jointly on the dependent variable. This means that 30% of the variation in the Tobin's Q is caused by ACIND, ACS, ACM, LEV, BSIZE and FSIZE While 70% of the variation in Tobin's Q is caused by other factors not considered in the model of the study. This indicates that the model is fit and the explanatory variables are carefully selected considering the p-value of 0.0000.

Table 4.5 reveals that ACIND and ACS has a negative significant all at 1% level of significance while ACM has a positive significant impact on Tobin's Q at 10% level of significance. This indicates that the more the ACIND and ACS the lower the financial performance as measured by Tobin's Q of listed non-financial companies in Nigeria under the study period and vice versa for ACM. Evidence shows if ACIND and ACS increases by one unit, financial performance measured by Tobin's Q will decrease by 0.0740845 and 0.1099134 respectively and when ACM increases by one unit, financial performance measured by Tobin's Q will increase by 0.0340458 of listed non-financial companies in Nigeria.

A negative relationship between ACIND and financial performance measured by means of Tobin's Q implies that there is insufficient technical knowledge on the part of the independent directors and their failure to make good recommendation to the board lead to poor financial performance as measured by Tobin's Q. The finding agrees with the findings of Zabochnikova, (2016), Nuhu, *et.al*, (2017), Ali and Amir (2019), Isac, *et.al*, (2020) Which may be related to wrongly composed and inefficient audit committee would therefore negatively affect the financial performance of the companies and disagrees with the findings of Ahmed and Ombaba (2019), Ashari and Krismiaji (2020), Awwad, *et.al*, (2020).

The study also documented a negative relationship between ACS and financial performance measured by Tobin's Q of listed non-financial companies in Nigeria during the study period. This indicates that if the size of a team is large, individual members may be more vulnerable to the pressures and more subject to follow the others' opinion without giving another argument. In this case, the audit committee members are not likely willing to question the potential errors in the accounting reports of the internal review process which will affect financial performance negatively. The findings support the findings of Kipkoech, (2016), Bouaine and Hrichi, (2019), Isac, *et.al*, (2020) and does not support the findings of Badhabi and Ismail, (2017), Peter and Scadewrtz, (2018) that found positive relationship between ACS and TQ.

On the relationship between ACM and TQ, the study found a positive relationship at 10% level of significance. This implies that regularly ACM leads to more commitment and monitoring on the part of the of the committee, thereby decreasing the possibility of an organization to incur losses and unnecessary waste of funds by management. The finding of the study support the documentation made by Oudat, *et.al*, (2021), Ashari and Krismiaji, (2020). And the finding does not support the argument documented by Bouaine and Hrichi, (2019), Isac, *et.al*, (2020).

Leverage is found to have positive and insignificant impact on financial performance measured by Tobin's Q. This indicates that when leverage of listed non-financial companies increases the financial performance will also increase by 0.0007297. The justification is that the market may have more confidence in higher leverage companies because the former believe that these companies would spend more on monitoring activities due to higher agency costs that are associated with higher debts (Jensen & Meckling, 1976). The finding of the study is in line with the findings of Amer *et.al* (2014), badhabi (2016) while some studies documented negative relationship between leverage and financial performance like the Al- Matari, *et.al* (2012), Fauzi and Locke (2012).

Board size is found to have negative insignificant impact on financial performance measured by Tobin's Q of listed non-financial companies in Nigeria. This implies that as board increases in size this would definitely affect Tobin's Q negatively. The findings support the result of Al-Matari, *et.al*, (2012), and liang, xu, and jiraporn (2013) in china among 52 banks for the period of 2003-2010. However, not in agreement with the findings of Ojeka, *et.al*, (2014), Shukeri, Shin, & Shaari (2012) in Malaysia among 300 Malaysian public companies.

Firm size shows a negative and significant impact on financial performance as measured by Tobin's Q of listed non-financial companies in Nigeria during the period 2013-2020. The result of the study does not agree with the economies of scale theory that larger firm have the advantage of producing at a lower cost and consequently increases financial performance. The finding is in line with the results documented by Emeka and Benjamin (2019) in a study of listed non-financial firms in Nigeria. And contrary, to the findings of Uwuigbe (2012); Emeka and Okeke, (2019), Ogoun & Ekpulu (2020).

Hypothesis Testing on ACIND, ACS, ACM and Tobin's Q

H0₄: ACIND does not have significant impact on Tobin's Q of non-financial companies in Nigeria. Based on the regression result, the variable is found to be significantly impacting on Tobin's Q. Hence, the null hypothesis is rejected and the hypothesis that there is a significant relationship between ACIND and Tobin's Q is accepted.

H0₅: ACS does not have significant impact on Tobin's Q of listed non-financial companies in Nigeria.

Based on the regression result, the variable is found to be significantly impacting on Tobin's Q. Hence, the null hypothesis is rejected and the hypothesis that there is a significant relationship between ACS and Tobin's Q is accepted.

H0₆: ACM does not have significant impact on Tobin's Q of listed non-financial companies in Nigeria.

Based on the regression result, the variable is found to be significantly impacting on Tobin's Q. Hence, the null hypothesis is rejected and the hypothesis that there is a significant relationship between ACM and Tobin's Q is accepted.

CONCLUSION AND RECOMMENDATIONS

The study concludes that ACIND has a negative significant impact on financial performance whereby ACS has a positive significant impact on financial performance and lastly, ACM has a positive and insignificant impact on financial performance as measured by EPS while ACIND and ACS has a negative significant relationship and ACM has a positive significant relationship with financial performance measured by TQ of listed non-financial companies in Nigeria during the study period 2013-2020. This study documented that an effective AC is a mechanism for improving of financial performance among listed non-financial companies in Nigeria.

Based on the findings of the study, the study recommends that the management of the listed non-financial companies in Nigeria should ensure that AC are more effective by ensuring that members are made up of independent non-executive directors and the size of the AC should be optimal and lastly ensure that AC meetings are tailored towards relevant issues that enhance financial performance of the firm. This will help to ensure that all financial transactions are in order; give the users of the financial statements more trust and confidence in terms of the quality of audited financial reports.

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