

**AUDIT COMMITTEE ATTRIBUTES AND PERFORMANCE OF DEPOSIT  
MONEY BANKS IN NIGERIA**

**BY**

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**DEPARTMENT OF BANKING AND FINANCE  
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BENIN CITY**

**FEBRUARY, 2022**

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**A PROJECT WRITTEN AND SUBMITTED TO THE DEPARTMENT OF  
BANKING AND FINANCE, FACULTY OF MANAGEMENT SCIENCES IN  
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD  
OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN BANKING AND  
FINANCE OF THE UNIVERSITY OF BENIN,  
BENIN CITY**

**FEBRUARY, 2022**

## **DECLARATION**

I, **Etinosa Stephanie ETUS** do hereby declare that this project is entirely my work and composition. The work embodied in this project has not been submitted by another candidate for any degree and is not currently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

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**Etinosa Stephanie ETUS**

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**Date**

## CERTIFICATION

We, the undersigned certify that this research work was submitted by **Etinosa Stephanie ETUS** and it is hereby approved for the partial fulfilment of the requirement for the award of Bachelor of Science (B.Sc) degree in Banking and Finance, University of Benin, Benin City.

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## **DEDICATION**

This project is dedicated to God Almighty, the giver of knowledge and wisdom, who made it possible for me to start this program of study and who saw me through to the end.

## ACKNOWLEDGEMENTS

I will like to express my profound gratitude to God Almighty, the keeper of my life, my hope when all hope is lost, for the grace to finish well.

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## ABSTRACT

*This study empirically examines the impact of audit committee attributes (including a vector of control variables) on the financial performance of Nigerian deposit-taking banks from 2014 to 2020. and Capital Adequacy - CAR). These indicators include audit committee size, audit committee independence, frequency of audit committee meetings, audit committee financial strength, board independence, bank size, and interest rates (deposit bank lending interest rate proxy) were regressed separately. Thirteen listed depository banks were surveyed using descriptive statistics, correlation analysis, pooled OLS, and panel data estimation techniques.*

*Empirical results show that the attributes (characteristics) of audit committees significantly influence the financial performance of Nigerian deposit-taking banks. In particular, the size of the audit committee, the independence of the audit committee, the financial expertise of the audit committee, the frequency of meetings, and the independence of the board (a measure of corporate governance) have a positive and significant impact. increase. About the financial performance of depository banks. Further evidence shows that bank size has a significant positive impact on ROE, but this impact on capital adequacy is positive, albeit weak. Finally, the interest rate variable (a measure of the interest rates that depository banks lend to highly trustworthy customers) is negatively related to financial performance using ROE as a measure, but positively related to financial performance using capital adequacy ratios. there is. Used as a measure of financial position. In light of these findings, it is recommended that sound, robust and efficient audit committee attributes and corporate governance/structures be institutionalized and operationalized to improve the financial performance of Nigerian depository banks.*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

To ensure good corporate governance, various committees are appointed by the company and are expected to carry out their duties efficiently and effectively. These committees include an audit, nomination and remuneration committee. The Audit Committee (AC), which is one of the statutory committees appointed by a company's directors, including those in the financial sector, has a number of roles, including financial reporting, key and related internal audit controls, risk monitoring, independent auditor oversight, ethics and compliance, and internal audit oversight, among others. Custodian banks (DMBs) must ensure that an audit committee is established in accordance with the Corporate Governance Code (2013) and the Companies and Related Matters Act (2020) and to assist with management suitable treatment.

The audit committee, as a component of corporate governance, will improve the way the business is run. Furthermore, since 2000, there has been a growing body of literature on the significant influence of audit quality on firm value (Awinbugri Francis, 2004). This ever-growing literature stems from the collapse of companies like Enron, WorldCom, Lehman Brothers, and more. ) of 2008-2010 had serious impacts on the country's banking sector, capital markets and the broader Nigerian economy. According to Osaze (2011), a number of credit scandals, financial misconduct and stock price manipulation that exacerbated the Nigerian stock market crisis from 2008 to 2010 can be directly attributed to poor governance. bad. weak businesses. This was corroborated by a joint audit conducted by the Nigeria Deposit Insurance Corporation (NDIC) and the Central Bank of Nigeria (CBN) in 2009, which discovered a number of depository banks (DMB) such as Oceanic Bank Plc., Intercontinental Bank Plc. , AfriBank Plc. and PHB Bank is in serious

condition (SEC, 2010). In fact, CBN had to intervene by creating a special discount window, injecting liquidity and replacing the CEOs of the banks involved to avoid a real banking crisis in Nigeria. . Following global best practice, the Corporate Governance Code (CCG) of Nigeria (2013) was enacted by the Securities and Exchange Commission (SEC) of Nigeria to overcome some of the ministry's protections. the law. corporate governance in 2003, 2006 and 2011. Basically, the provisions of the SEC code 2013 relate to corporate governance law, business and other ancillary issues.

Since agency theory, the separation between ownership and control leads to an anomaly in the pursuit of management's interests over the interests of the owners, the Governance of the Board of Directors must ensure the protection of the interests of shareholders. To achieve this, management decisions must be controlled. This is to ensure efficient financial reporting (Fama & Jensen, 1983). Mohiuddin and Karbhari (2010) argue that the audit committee should have a positive and effective impact on the financial statements and that the company should have several attributes such as independence, financial expertise, size and numbers. quantity. Meeting. In view of the above, a survey of audit committee performance and corporate performance, using listed companies in Nigeria with specific reference to the DMB, has become urgent.

## **1.2 Statement of the Research Problem**

The influence of the audit committee on corporate performance has attracted the attention of researchers and decision makers since the 2000s (Zhou Kumar Owolabi Carcello, Hollingsworth, Klein). Chan Osemene & Fakilé, 2018). In the above context, it can be seen that the link between the audit committee and the bank's performance is still an open topic of debate.

Furthermore, ongoing research in Nigeria on the relationship between audit committee attributes and bank performance mainly uses profitability measures such as return on equity (ROE) and return on assets (ROA) as indicators of a bank's performance, ignoring important measures of bank performance such as capital adequacy ratio (CAR). We are inclined to believe that the unique nature of the banking business, such as its low capital-to-asset ratio and demand liabilities (unlike other businesses), tends to put more pressure on the bank's management to harmonize the bank's profit objectives, liquidity, solvency, stability and growth. Adequate capital is important from a bank's solvency perspective and protects against adverse events due to liquidity and credit risks that banks face in the normal course of business. To our knowledge, there is little empirical evidence that bank solvency and stability are an important aspect of a bank's financial performance. Therefore, this study improves insight by using capital adequacy ratio (CAR) in addition to ROE (as a performance measure) in the association between audit committee (AC) and efficiency.

### **1.3 Research Questions**

Based on the above discussions the following research questions were answered in this study.

- i. To what extent does audit committee size affect the financial performance of listed deposit money banks in Nigeria?
- ii. To what extent does audit committee independence influence the financial performance of listed deposit money banks in Nigeria?
- iii. What is the effect of audit committee frequency of meetings on financial performance of listed deposit money banks in Nigeria?

- iv. What is the effect of audit committee financial expertise on financial performance of listed deposit money banks in Nigeria?

#### **1.4 Objectives of the Study**

Examining how audit committee characteristics affect the performance of listed companies in Nigeria with a focus on deposit money banks is the study's main goal. The study specifically aims to, among other things, achieve the aforementioned stated goals, which include to:

- i. study the impact of audit committee size on listed Nigerian deposit money banks' financial performance;
- ii. evaluate the impact of audit committee independence on the financial performance of Nigeria's listed deposit money banks;
- iii. evaluate the effect of audit committee frequency of meetings on financial performance of listed deposit money banks in Nigeria;
- iv. investigate the effect of audit committee financial expertise on financial performance of listed deposit money banks in Nigeria.

#### **1.5 Research Hypotheses**

Based on the research problems and objectives stated above, the following research hypotheses were formulated as follows;

- H<sub>01</sub>:** Audit committee size does not significantly affect the financial performance of listed deposit money banks in Nigeria.

**H<sub>02</sub>:** Audit committee independence does not have any significant influence on financial performance of listed deposit money banks in Nigeria.

**H<sub>03</sub>:** Audit committee frequency of meetings does not have a significant effect on financial performance of listed deposit money banks in Nigeria

**H<sub>04</sub>:** Audit committee financial expertise does not have a significant effect on financial performance of listed deposit money banks in Nigeria.

## **1.6 Scope of the Study**

This study assesses the influence of the audit committee's characteristics on the financial performance of all seventeen Nigerian deposit money banks (DMBs). The study's sample, however, was restricted to the thirteen (13) deposit money banks that were listed on the Nigerian Exchange Limited (NGX) floor at the time. This considers those who were removed from the list as a result of mergers and/or acquisitions. The study's seven-year time frame included the years 2014 to 2020. The Nigerian Securities and Exchange Commission's (SEC) 2013 introduction of a specific code of corporate governance requirement led to the adoption of 2014 as the base year.

## **1.7 Significance of the Study**

The importance of the study cannot be overstated. First, the study attempts to enrich the literature by focusing on the influence of audit committee attributes on bank performance in a developing country such as Nigeria with established institutions. ancient. weak and poor regulatory environment. Nigeria is an interesting example of a border market, and Nigeria's use of data is an important contribution to understanding the responsibilities of audit committees and the performance of custodian banks.

Second, the study improves on the existing literature by introducing CAR as a performance measure in assessing the attributes of the audit committee and the bank's performance. This gives investors, regulators and regulators the opportunity to understand the extent to which CA attributes contribute to or affect the solvency and stability of banks.

Based on the forgoing, this study provides useful insight to policy makers, regulators, shareholders, depositors, creditors, researchers and other stakeholders. Specifically, policy makers and bank regulators such as the Corporate Affairs Commission (CAC), Securities and Exchange Commission (SEC), Nigerian Deposit Insurance Corporation (NDIC) and Central Bank of Nigeria (CBN) will also find this study useful as it may influence their policies with regards to the composition and attributes of audit committees. In other words, the study gives regulators and policy makers useful information that will engender some leverage in the proactive supervision, evaluation and monitoring of DMBs.

Furthermore, the study will enable fund managers and investors (creditors and shareholders ' ) make informed investment decision. For example, shareholders who are the residual owners of the banks have been provided with useful insight in terms of AC attributes that serve as markers for determining the profitability, solvency, stability and going-concern status of DMBs. In other words, understanding the dynamics between AC and bank performance will assist investors realize their investment objectives which include safety of their capital, stability of dividend/interest income and capital appreciation. In addition, this study will be useful to the Boards of Directors and senior management of banks, who, as industry leaders, are responsible for ensuring that banks are regulated. act in the best interest of shareholders and other stakeholders. Ultimately, this research will be useful to other students and researchers. It will serve as a springboard for future research.

## **1.8 Limitation to the Study**

This study's primary flaw was its exclusive use of deposit money banks (DMBs) as a sample frame. Therefore, the conclusions could not immediately apply to banks that do not pay interest, provide microfinance, or offer investing services. Due to the availability of data, the study has been restricted to DMBs. DMBs listed on the NGX floor are mandated by law to make their periodic financial reports available to the investing public. Regulators can impose harsh penalties for failure to comply, but this is not typically the case for other financial intermediaries who are not listed. However, efforts were made to cautiously apply the study's findings to other banks and financial institutions in an effort to lessen this constraint.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The conceptual review, the review of comparable empirical investigations, the review of theories, and the theoretical foundation for the study are all covered in this chapter.

#### **2.2 Conceptual Review**

##### **2.2.1 Financial Performance**

##### **Return on Equity (ROE)**

Return on equity (ROE) is a ratio used by analysts to evaluate a company's performance. It's an accounting ratio that gives an indication of a company's overall financial health. ROE shows the income generated for shareholders by equity, which is the source of financing provided by shareholders. ROE measures a shareholder's return on investment in a company. The simplest way to calculate ROE is to take the reported net income for a period and divide it by equity (Gitman Osemene & Fakile, 2018). In contrast, some analysts take EBIT and allocate it to equity. It is a pure measure of a company's efficiency in generating returns on equity, unaffected by management's funding decisions. This study chose objective measures of financial performance by adjusting interest rates and taxes to objectively assess management efficiency. Malm and Roslund (2013) state that ROE can indicate whether a company can find profitable investment opportunities, which is of great importance for companies looking to remain competitive. .

In contrast, some analysts take earnings before interest and taxes (EBIT) and allocate it over total assets (Ross, Westerfield and Jaffe, 2013). It is a pure measure of a company's efficiency in generating a return on its assets, unaffected by management's funding decisions.

### **Capital Adequacy Ratio (CAR)**

The capital adequacy ratio (CAR), also known as the risk-on-asset ratio, measures a bank's financial strength when it comes to using its capital and assets. It is used to protect depositors and promote the stability and efficiency of financial systems worldwide. In general, a bank with a high capital ratio is considered safe and capable of meeting its financial obligations. The capital adequacy ratio is calculated by dividing the bank's capital by risky assets. The capital used to calculate the equity ratio is divided into two levels. Tier 1 capital, or underlying capital, includes shareholders' equity, common stock, intangible assets, and audited revenue reserves. Tier one capital is used to cover losses and does not force the bank to cease operations. Tier 2 capital includes unaudited retained earnings, unaudited reserves and general loss provision (Ajayi, Ajayi, Eniola & Orugun, 2019). This capital absorbs losses in the event of dissolution or liquidation of the company. The two capital levels are added together and divided by risky assets to calculate the bank's capital adequacy ratio. Risk-weighted assets are calculated by looking at a bank's loans, assessing their risk, and then assigning them a weight. Currently, the minimum capital-to-risk ratio is 8% under Basel II and 10.5% under Basel III. The high capital ratio exceeds the minimum requirements of Basel II and Basel III. A minimum capital adequacy ratio is needed to ensure that banks have enough cushion to absorb a reasonable amount of loss before they become insolvent and consequentially lose depositors' funds. In addition to ROE, which is an accounting measure of a bank's performance, this study brings CAR into the debate about the financial performance of CAs and banks.

### **2.2.2 Audit Committee Concepts**

The audit committee is considered by the Sarbanes-Oxley Act (SOX, 2002) as a committee (or equivalent body) established by and between the board of directors of an issuer to plan oversight of the accounting reporting process, financial reporting and auditing of the issuer financial statements of the issuer. According to SOX, the role of the audit committee should include reviewing the financial statements, the effectiveness of the company's accounting and internal control systems, making recommendations on the auditor's results, pointing out and indemnify external auditors.

In fact, the main task of the audit committee is to ensure the appropriateness and consistency of the accounting principles used for the consolidated accounts and corporate social responsibility, and to verify that internal procedures to collect and control information warrants them. In addition, the audit committee serves as the operating arm of the company's board of directors, serving as a protected structure capable of seeking alignment between management and statutory audits, while reducing conflicts of interest and thus agency costs (Chen appointment of external auditors; meet regularly with managers and external auditors to evaluate the company's financial statements; exchange information with internal and external auditors during the internal audit and control process. Therefore, one of the main functions of the audit committee is to maintain an ongoing review of the company's financial data and internal accounting controls, thereby contributing to the truthfulness of the financial statements. and financial performance. However, given the important role of the audit committee as an oversight structure for the board of directors, previous research and regulators such as SOX (2002) suggest that the committee should have a sufficient number of committee members (size), etc. suggests that it should have certain properties. and its composition, independence, expertise and frequency of meetings. De Zoort, Todd, Hermanson, Dana, Archambeault, Deborah, and Reed (2002) point out that these attributes can reduce the effectiveness

of committees in monitoring and managing accountability. This is particularly relevant to the audit committee's ability to perform its oversight and control functions more effectively. Corporate governance documents emphasize the need for audit committees to include independent members, some with financial expertise, and the need for audit committees to have a positive impact on finance . Firms (Abbott, Parker and Peters, 2004). The evidence in this area of research is equivocal. However, board and audit committee expertise has been shown to improve enterprise value (Chan and Li, 2008). Corporate governance literature argues that the involvement of the audit committee in the process of disclosing objective information, as well as the process by which management communicates information to auditors, reduces information asymmetry. doing. between insiders and outsiders. However, statutory auditors also play an important role in keeping them immune to regulation, so audit committees can be used as a mechanism to mitigate representation-related issues faced by companies (Jensen Qeshtaa, & Ali, 2020). The quality of balance sheets, cash flow statements, and financial statements should be evaluated to identify certain discrepancies that may increase audit risk. Conflicts of interest have recently arisen between directors and shareholders. Such conflicts of interest stem from the actions of corporate leaders who pursue their own selfish interests at the expense of their shareholders, ultimately undermining their goals of maximization. property. Managers can undertake projects that are too risky compared to the shareholder's risk profile. In addition, managers can reward themselves with large salaries, reducing shareholders' assets. Additionally, managers may be interested in projects that have a longer lifespan than shareholders expect. Such conflicts of interest arise from information asymmetries (Koutupis, & Bekiaris, 2019). Audit committees help mitigate these conflicts of interest by ensuring accuracy and transparency. Review boards act as a knowledge

quality control mechanism to ensure consistency and eliminate potential fraud. According to Person (2009), organizational performance can be significantly impacted by audit effectiveness.

## **2.3 Empirical Review**

This section discusses several empirical studies on the relationship between audit committee performance and firm attribute.

### **2.3.1 Audit Committee Size and Financial Performance of Firm**

Previous literature on audit committee effectiveness has argued that audit committee size is one of the key attributes contributing to its effectiveness (Jensen, 1993; Vafeas, 2005). Vafeas (2005) argues that if the audit committee is too small, there will not be enough directors to serve on the committee, reducing the effectiveness of the audit committee's controls. As a general rule, small committees are unable to carry out their duties effectively due to their ever-increasing responsibilities. In addition, oversized committees can slow down the coordination process, reduce director performance, and weaken oversight and control (Jensen, 1993; Vafeas, 2005).

However, Abbott, Parker, Peters (2004) and Vafeas (2005) suggest that the average size of a full review panel is 3–4 members of her. Previous research has shown that companies with large audit committees are more effective in managing their operations.

For this reason, Yang and Krishnan (2005) found weak quarterly revenue management in firms with large audit committees. This means that an adequate number of audit committee members enhances the

effectiveness of the oversight function over the integrity of financial reporting. Therefore, most of the literature on audit committee size and performance suggests that the larger the audit committee, the greater the oversight and control over financial reporting. For example, Bedard, Chtourou, and Courteau (2004) argue that it is appropriate to increase the number of audit committee members to ensure more effective oversight of accounting and financial processes. Bouaziz (2012) used a sample of 26 Tunisian companies listed on the Tunisian Stock Exchange to investigate the impact of audit committee characteristics on the financial performance (ROA and ROE) of Tunisian companies. The results show that the size of the audit committee has a significant positive impact on her financial performance as measured by ROA and ROE. The study concludes that audit committee size is important for improving financial performance.

Ali, Kaid, Hanim, and Mohammed (2012) examine corporate governance mechanisms related to the board of directors, audit committee characteristics, and their relationship to the performance of Arab companies. Saudi Arabia was listed on the Saudi Stock Exchange (TADAWL) in 2010, excluding financial companies. In this study, Tobin's Q-ratio was used to measure performance. The study's statistical findings contradict the agency theory that boards and audit committees can minimize agency problems, and can reduce agency costs by reconciling most benefits. . Ownership is related to company profits, but the size of the audit committee has a lot to do with company performance (although in the opposite direction of expectations). Other hypothetical variables, such as audit committee independence, audit committee meetings, etc., were found to match management expectations, but were less relevant to her KPIs for the audit committee. enterprise. However, the evolution of the proportion of non-executive board members has shown the opposite direction of expectations.

## **2.4 Theoretical Review**

The theories applicable to audit committee attributes and firm performance include agency theory and stakeholders theory.

### **2.4.1 Agency Theory**

Agency theory occupies a central position in the corporate governance literature. Traces of this theory can be found in early literature, such as the works of Adam Smith in the 18th century, but the theory was formally proposed by Jensen and Meckling (1976). It represents a fundamental conflict between managers and selfish owners, the former controlling the company, but the latter having the most impact on wealth. The original model of Jensen and Meckling (1976) illustrates this by explaining that poor managerial fairness causes managers to increase non-labor costs. Agency issues of this kind incur agency costs. A key part of their theory is that outside shareholders cannot freely observe management's actions. Although the model makes many limiting assumptions, the results are applicable to a more general framework, as evidenced by extensive theoretical and experimental work following the work of Jensen and Meckling.

Agency theory is one of the theories that has been extensively tested in various articles and received many positive comments. An agency relationship occurs when one party (the agent) authorizes another party (the principal) to act on its behalf. Also known as a master-agent relationship. Agents represent managers and principals represent company owners. The trustee appoints an authorized agent to act on his/her behalf in furtherance of the business objectives. Agents are expected to represent the best

interests of the trustee, regardless of their personal interests. When both parties exhibit selfish, utility-maximizing behavior, there is good reason to believe that the agent will not act in the best interest of the trustee, thus giving rise to the agent problem (Clarke 2007). In agency theory, there is a conflict of interest between the shareholders (clients) and the directors (representatives) of a corporate organization, and the principal is responsible for representation and expenditure on activities aimed at monitoring and limiting the selfish activities of agents. We hypothesize that this conflict can be mitigated by encouraging

## **2.4.2 Stakeholders Theory**

Stakeholder theory was developed by Freeman (1984). Stakeholders are often described by Freeman (2010) as any identifiable group or individual that can influence the achievement of the organization's goals or who are affected by the achievement of the organization's goals. Stakeholder theory holds that companies are accountable to many stakeholders, in addition to shareholders. These stakeholders include, but are not limited to, customers, employees, suppliers, government, communities, the environment and future generations. With this in mind, it is not enough for managers to focus solely on the needs of shareholders or company owners. According to Bathula (2008), the role of the board of directors is to protect the interests of all stakeholders in addition to maximizing profits for shareholders. Stakeholder theory implies that a company's involvement in certain CSR activities can provide benefits that non-financial stakeholders consider important, because without it, groups can withdraw their support of the company. Stakeholder theory was developed by Donaldson and Preston (1995), who emphasized the ethical and moral aspects of CSR. However, it may have contributed to the introduction of ethical theory into the study of social and environmental responsibility. It was then developed and based on the idea that managers must "do the right thing", regardless of how

those decisions affect the financial performance of the company. How?' Or 'What. Social, social and environmental responsibilities contribute to strengthening the relationship between the company and the society in which it operates. Neglecting the interests of stakeholders can tarnish the company's image with the public, which will negatively affect the company's financial performance.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

The research design, study population, sample size, sampling procedures, data sources, theoretical framework, and model definition are all presented in this chapter. Variable operationalization, estimate methods, and preliminary tests were also emphasized.

#### **3.2 Research Design**

Within a panel data research framework, this study uses a longitudinal research design. This is due to the audit committee characteristics of a variety of DMBs under investigation having been tracked over a predetermined amount of time. Additionally, the design aids in determining the nature of the link between the dependent and independent variables, including its magnitude and direction.

#### **3.3 Population of the Study**

The seventeen (17) deposit money banks that were authorized and in operation in Nigeria during the time frame of the study make up the study's population. We observe that the population size is not constant in terms of the number of banks. It is a flow because certain banks may occasionally be added to the list, removed from the list, or participate in merger and acquisition activities that may have an impact on the total number of banks in the population.

### **3.4 Sample Size and Sampling Techniques**

Based on the nature of the population described above, this study used a purported sample of only 13 custodian banks listed on the Nigerian Exchange Limited (NGX) during the survey period. In other words, the DMB population is filtered to 13 based on their enrollment status, the nature of the banking pattern, and events that occurred on the NGX during the census period. For example, of the 17 banks, Standard Chartered and City Banks are not listed. Diamond Bank was dropped when it was acquired by Access Bank in 2019 in the event that the investing public revealed that the bank's solvency and stability had been severely compromised. In addition, Jaize Bank was eliminated due to the bank's interest-free business model, which is different from other banks. Our choice for this sampling method is due to the small number of banks operating in Nigeria. In addition, we only use DMBs listed on the NGX exchange due to data availability.

### **3.5 Sources of Data**

Secondary data were used for this study. The data is taken from the audited annual financial statements of the depository banks listed in the NGX form for the period from 2014 to fiscal 2020.

### **3.6 Theoretical Framework**

Based on our review of the existing literature, various theories complement rather than compete in support of the AC properties and financial performance of the DMB. However, the theoretical framework of this study is based on Jensen's agency theory (Fama & Jensen, 1983). In this regard, Bonazzi and Islam (2006) determine that one of the measures adopted by a company's shareholders to ensure that management acts in the best interest of the company is to establish a committee. ban. independent management and

audit. Hence, from the above, we hypothesize a positive relationship between CA attributes and financial performance of DMBs in Nigeria with causality running from first to second. Board attributes of interest in this study include audit committee size (ACSIZE), frequency of audit committee meetings (FRQM), audit committee independence (ACIND) and the expertise of the audit committee. For these, this study introduced a set of control variables that play a decisive role in the financial performance of DMBs. Control variables include board independence (BIND), bank size (BKSZ) and interest rate (INTR).

### 3.7 Model Specification

This study adapts the model of Olayinka (2019) which investigated the relationship between firm performance and audit committee activities. The functional form of the model is given as;

$$\dots\dots\dots 3.1$$

Where FirmP represents the company's performance, size is the size of the ACSIZE audit committee, and Freqmeeting is the frequency of audit committee meetings (FRQM). Because of the importance of audit committee independence (ACIND) in preventing conflicts of interest between the audit committee and company management (i.e. DMBs), ACIND was included in the model. In addition, the expertise was changed to audit committee finance expertise (ACFXP) in this study. So we have;

$$\dots\dots\dots 3.2$$

We also offer three key control variables that affect the financial performance of DMBs, as mentioned in the theoretical framework. This covers bank size (BKSZ), interest rate, and board independence (BIND), which are all important measures of corporate governance (INTR).

On the basis of the preceding, equation 3.2 above is revised as follows:

.....3.3

All variables as defined before. In this study, the financial performance of DMBs is divided into two (2) performance measures. The first is return on equity (ROE), which is an important measure of profitability and financial performance. In addition to profitability (ROE), this study uses capital adequacy ratio (CAR) as a measure of bank performance.

Therefore, to continue, Equation 3.3 has been decomposed into two empirical models as follows;

Where to represent the bank in each specific period from 2014 to 2020. and represent the mean or term at the origin. to represent the unknown coefficients of the audit committee's attributes or variables, to represent the unknown coefficients of the control variables while and as the error term or the random element in equations 3.4 a and 3.4b respectively.

Based on theory, the a priori expectation of the sign of the independent variables is given by; and . This means, in principle, an increase in the size of the audit committee, the frequency of audit committee meetings, the independence of the audit committee, the financial expertise of the audit committee, the independent of the board of directors, the size of the bank will lead to an increase in the financial performance of companies as measured by ROE and CAR. The effect of interest rates on the financial performance of banks can be positive or negative depending on the elasticity of credit, loans and advances to their customers and its effect. for bad loans, among other factors.

### 3.8 Measurement of Variables

The variables for the study were measured as follows;

**Table 3.1: Summary of variables, measurement and sources of data employed**

S/N	Variable Description	Name	Measurement	Previous study	Apriori Exp.
1	Return on Equity	ROE	Measured as a ratio of profit after tax to number ordinary share in issue	Osemene & Fakile (2018)	
2	Capital Adequacy Ratio	CAR	Measured by dividing DMBs capital (tier one and tier two) by their risk weighted average.	Ajayi, Ajayi, Eniola, & Orugun (2019)	
3	Audit Committee Size	ACSIZE	Measured as a total number of committee members.	Ame (2013); Thu, Pham & Nguyen (2016); Haddad et al. (2021)	+
4	Audit Committee Independence	ACIND	Measured as the number of independent director in the AC	Bilal & Bushra. (2018); Haddad et al. (2021)	+
5	Audit Committee Financial Expertise	ACFEX	Measured as a dummy variable stating 1 if the audit committee has a member who currently has (or had previously) work experience as certified chartered accountants, chief financial officers, financial controllers, or any other major accounting or finance positions in each accounting period and 0 for otherwise	Bouaziz (2012); Bilal & Bushra. (2018); Haddad et al. (2021)	+
6	Frequency of Audit	FRQM	Measured as a total number of		+

	Committee Meetings		times the committee holds meeting during an accounting period.	Awinbugri & Prince (2019)	
7	Board Independence	BIND	The proportion of non-executive directors on the board	Adib & Xianzhi (2019); Aliyu (2019)	+
8	Bank Size	BKSZ	Total asset of the banks	Rashid, Hassan, & Shah (2020).	+
9	Interest rate	INTR	Measured using prime lending rate. This is the rate at which DMBs grant loans to their most reliable customers, and it is a function of the monetary policy rate (MPR)	Uwubanmwun & Ikponmwosa (2016)	+/-

**Source:** *Researcher's Compilation (2022)*

### 3.9 Method of Data Analysis

The models specified in this study were estimated using the panel data frame multiple regression technique. Suffice it to say that the study performed a series of preliminary tests, namely descriptive statistics and correlation tests. These tests help provide functionality and background information about the variables in our data set, and highlight potential relationships between variables.

Very importantly, a pre-diagnosis test will also be performed using the Hausman test. Hausman test detects endogenous regressors (predictors) in the regression model. Endogenous variables whose values are determined by other variables in the system. The presence of endogenous regressors in a model will cause ordinary least squares (OLS) estimates to fail, because one of OLS's assumptions is that there is no correlation between the predictor guess and error term.

The Hausman test is sometimes described as a model error test. In the panel data analysis that will be used in this study, the Hausman test can help you decide between a fixed-effects model and a random-effects model. The null hypothesis assumes that the preferred model is a model of random effects; The alternative assumption is that the model is fixed effects. Essentially, the test evaluates whether a statistical model fits the data (Hausman, 1978). The test allows to see if there is a correlation between the single errors and the regressors of the model. The null hypothesis is that there is no correlation between the two.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

In this chapter, we provide and analyze the data that were used to conduct the study's empirical evaluation. As a result, the study's data are presented, examined, and interpreted. In order to give the investigation a strong background, the analysis uses two general methods, namely statistical and econometric methods.

#### 4.2 Data Analysis and Interpretation of Results

Prior to the primary empirical study, the statistical analysis is used to present the data and interpret the findings.

Table 4.1 provides descriptive information on the audit committee characteristics as well as the two indicators of deposit money banks' financial performance (ROE and CAR). 5.05 percent is the average ROE. The fact that the median value of 4.15 is lower than the mean value indicates that there is significant variability in return on equity (ROE) performance across the time and that ROE is not consistent across the selected deposit money institutions. The significant difference between the maximum and minimum values—22.05 percent and minimum -1.25 percent, respectively—also supports this. The standard deviation of 5.82, which is higher than the mean, indicates a large difference between the cross-sectional ROE of the depository banks in the sample. Invariably, the ROE of many selected depository banks does not follow the same pattern. Corresponding mean values for audit committee size, board meeting frequency, audit committee independence, board independence, bank size and interest rates

respectively are 6.05, 4.19, 3.70, 0.53, 67.04 and 24.04%. An ROE deviation of 2.55 and a pointed value of 10.25 indicates an uneven and asymmetric distribution. Apparently some depository banks have high ROE and audit committee attributes tend to offset the low values reported by others. A J-B value of 364.01 is critical and indicates that the properties of the ROE and audit committee are not normally allocated to the DMB.

Similarly, the mean CAR is 12.55%, indicating the relatively high capital adequacy ratio of DMBs in Nigeria during this period. This suggests that the banks in the sample tend to have strong financial performance and are a good measure of financial stability during the study period. Unlike the ROE case, there appears to be less variation between the CARs reported for individual DMBs possibly due to monetary policy provisions regarding the required minimum capital adequacy ratio for the CARs. banks in Nigeria. The median value is 11.15% lower than the mean, indicating that the CAR coefficient is not similar among the depository banks in the sample. The standard deviation value is also high and indicates a rapid change or change in CAR over time for the respective libraries or inter-section differences in the DMB. The positive skewness is high and suggests that more depository banks in the sample reported CAR values below the bank average. A JB value of 1126.1 for RAC is high and very significant; an indication that CARs between banks are not normally distributed. This implies that there is heterogeneity among depositing banks in terms of financial performance, whether ROE or CAR.

The independent variables have similar characteristics, namely high variability, positive bias, leptokurtic values, and highly significant J-B. Clearly, the individual audit attributes of banks are crucial in determining the financial performance ratings used in the analysis. Considering the high variability,

leptokurtic and critical values of JB in the series, there is evidence that specific audit committee attributes of individual depository banks are important in the interpretation of ROE. or CAR. This statistic, in addition to the significant J-B statistic, clearly indicates that the assumption of normality and uniformity of the distribution cannot be accepted. Therefore, the values that suggest the existence of a density function are not symmetrically distributed. The implication of this is that there is heterogeneity among the sampled DMBs in terms of financial performance and the characteristics of the individual audit committees. Therefore, an endogeneity problem is expected in the models if the OLS technique is used without the Hausman test.

**Table 4.1: Descriptive Statistics**

	<i>Mean</i>	<i>Median</i>	<i>Max.</i>	<i>Min.</i>	<i>Std. Dev.</i>	<i>Skew</i>	<i>Kurt.</i>	<i>J-B</i>	<i>Prob.</i>
<i>ROE</i>	5.05	4.13	22.05	-1.25	3.25	2.55	10.25	364.16	0
<i>CAR</i>	12.54	11.15	28.10	2.72	5.05	3.30	3.41	1126.06	0
<i>ACSIZE</i>	6.05	5.71	8.73	2.02	1.98	1.59	3.35	66.15	0
<i>FRQM</i>	4.19	4.05	6.26	2.06	1.58	1.41	4.36	28.78	0
<i>ACINDP</i>	3.70	3.25	5.02	1.00	0.96	1.28	2.10	20.03	0
<i>BIND</i>	0.53	0.52	0.87	0.38	0.25	0.67	0.70	78.10	0
<i>BKSZ</i>	67.04	63.48	156.31	9.56	15.12	4.68	4.62	11848.1	0
<i>INTR</i>	24.022	23.75	38.10	18.15	4.64	1.16	3.711	5.72	

**Source:** Author's computations (2022) extracted from Eviews 9.0.

### **4.3 Empirical Results on the Panel Analysis**

After conducting a preliminary statistical analysis of the variables, a baseline empirical estimation is done to show how the characteristics of the audit committee affect the financial performance of DMBs in Nigeria. The primary focus of this investigation is the degree to which the financial performance of deposit money banks (as measured by ROE and CAR) responds to each of the pertinent audit committee attributes in order to determine their influence (impact) on the financial performance of deposit money banks in Nigeria.

#### **4.3.1 Multivariate Panel Data Estimation**

The OLS estimates reported and analyzed above are neither suitable nor robust enough for policy formulation, because the estimates are inherently endogenous. This implies that the empirical estimates are biased and inconsistent. To avoid this challenge, multivariate panel data analysis technique was used to re-estimate the relationships. As pointed out in the previous section, the standard test for applying panel analysis is the Hausman test for random and fixed effects. Hausman test is used to select the appropriate estimation strategy among two widely used panel data regression estimation techniques (fixed effect and random effect). The fixed effects panel regression estimate assumes that the error term and the independent variables are uncorrelated, while the random effects estimate assumes that the error term and the explanatory variables are correlated. Hausman test results for ROE and CAR models are shown in Table 4.4.

For ROE, the chi-square statistic gives a random cross-sectional value of 10.71, with a corresponding probability of 0.02. This value is statistically significant at the 5% level because it is larger than the relevant chi-squared value, implying rejection of the random effects hypothesis. Note that rejecting the null hypothesis that unobserved firm-specific heterogeneity is correlated with regressors involves

focusing the analysis on the estimates generated by the fixed-effects model. intended to provide. This effectively discards the random effect in favor of the fixed effect outcome, which is the best method for capturing the relationship. Therefore, the fixed effects method is used to estimate the ROE model and policy inferences are drawn from this model.

For the VEHICLE MODEL, the random cross-sectional value is 1.853, with a probability of 0.61, a value less than the corresponding chi-squared value. This clearly leads to accepting the assumption that the random effects strategy is the best estimation method for the CAR model, with the corresponding policy inferences drawn.

**Table 4.2: Summary of Hausman Test for Cross-Section Random Effects**

Test cross-section random effects			
Model	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Return on Equity (ROE)	10.713	5	0.02
Capital Adequacy Ratio (CAR)	1.853	5	0.61

**Source:** *Author's computations (2022) extracted from Eviews. 9.0*

### **4.3.2 Results of the ROE Model (Fixed-Effect)**

The results of the fixed effects model to study the impact of audit committee attributes on the financial performance of depository banks, using ROE as a measure, are presented in the table in Table 1. 4.3. Checking the results showed that the adjusted coefficient of determination was 0.813. This suggests that more than 81% of the systematic net variations in the DMB's ROE (a measure of financial performance) are explained by audit committee attributes; an indication of the good predictability of the model. Therefore, the explanatory variables have a large influence on the behavior of the depository bank's financial performance (represented by ROE) in Nigeria. The F value of 28.72 is significant at the 1% level, confirming the existence of a significant linear relationship between ROE and the relevant audit committee attributes and other variables (i.e. regressors) and show that all the explanatory variables have common significance in explaining the ROE of depository banks in Nigeria. This, to be sure, makes the regression factors the fundamental factor explaining the financial performance of depository banks in Nigeria. The D-W statistic of 1.84 shows that there is no autocorrelation in the model. Therefore, empirical estimates can be used for forecasting and policy formulation purposes.

**Table 4.3: Fixed-Effects Results for Return on Equity (ROE) Model**

<i>Variable</i>	<i>Coefficient</i>	<i>T-Ratio</i>	<i>Prob.</i>
<i>C</i>	0.021	0.681	0.46
<i>ACSIZE</i>	0.028	2.185**	0.03
<i>FRQM</i>	0.017	1.278	0.21
<i>ACINDP</i>	0.915	2.569**	0.01
<i>ACFEXP</i>	0.470	2.145**	0.03
<i>BINDP</i>	0.178	2.529**	0.01
<i>BKSZ</i>	0.115	2.124**	0.04
<i>INTR</i>	-0.266	-1.303	0.17
	Adjusted R <sup>2</sup> = 0.813	F = 28.72***	D.W = 1.84

**Note:** \*, \*\*, \*\*\*, implies statistical significance at 10%, 5 % and 1% levels, respectively

**Source:** *Author's computations (2022) extracted from Eviews. 9.0*

Regarding the individual effects of the model variables, the results show that all coefficients of the explanatory variables have a priori signs as expected. Emphasis is placed on cues as well as t-values to determine the influence of individual audit committee attributes and other variables on the dependent variable (ROE). The audit committee size coefficient (ACSIZE) was positively confirmed in agreement with theory and evidence. also statistically significant at the 5% level. As a result, audit committees of good size and composition tend to improve the financial performance of DMBs. Since a well-established audit committee ensures the good financial performance of depository banks and verifies internal procedures for information collection and control, financial performance

tends to improve. . This conclusion is consistent with that of Chan and Li, (2008), Vafeas (2005) and Al Farooque, Buachoom, & Sun, 2019). Obviously, the large audit committees as the operating arm of the board tend to give more attention and oversight to the bank and thus to the overall financial accounting process, agency costs and improved financial performance as agreed by Chen and Zhou (2007).

Audit committee meeting frequency (FRQM) coefficient is positively related to ROE but does not reach the test of significance at the usual level. Since its t-ratio is greater than 1, it can be inferred that meeting frequency increases the financial performance of deposits in Nigeria, but the effect is small. Invariably, a higher frequency of audit committee meetings has the potential to reduce financial vulnerabilities, thereby improving operational efficiency. This finding supports the findings of Zhou and Chen (2004), Stewart and Munro, (2007), Hassan (2013) and Salawu et al. (2017). Overall, due diligence is a necessary attribute of the audit committee to quantify the effectiveness of the audit committee (Greco, 2011). Intuitively, an effective audit committee is capable of ensuring reliable financial reporting, tight internal controls, and functional risk management for the business. An effective audit committee can also help improve stock market transparency, which means better protection of shareholder interests and improved corporate value and performance. . Audit Committee Independence (ACINDP) is positively related to ROE, in line with previous expectations, and statistically significant at the 5% level. Therefore, enhancing the independence of the audit committee tends to promote the financial performance of depository banks because the independent audit committee is capable of making objective and capable judgments and assessments. effective management control. Overall, the independence of non-executive directors is an important attribute that contributes to the effectiveness of the audit committee's control function. In addition, an

independent audit committee has the potential to ease agency problems. The results support the conclusion of Erickson et al. (2005) and Assenga, Aly and Hussainey (2018).

Audit committee financial expertise (ACFEXP) has a positive relationship with ROE (measure of financial performance) of depositing banks. Invariably, well-trained and experienced audit committees can assume oversight, internal control and financial reporting responsibilities, thanks to greater expertise based on accounting and financial knowledge. The results corroborate the results of Yang and Krishnan (2005), Carcello, Hollingsworth, Klein and Neal (2006), Bouaziz (2012) and Choi, Han, Jung and Song (2020).

The board independence coefficient has a consistent positive sign, is consistent with theory and evidence, and is statistically significant at the 5% level. Since strong independent boards are not easily manipulated, they tend to make more informed decisions that improve financial performance. As a strong corporate governance attribute/mechanism, large independent boards are immune to manipulation and therefore cannot compromise reputation, transparency and accountability. Overall, foreign-dominated boards have been shown to have greater control over management activities. The results support the conclusions of Iraya, Mwangi and Muchoki (2015).

The bank size coefficient has a positive sign, which is consistent with theoretical expectations and is statistically significant at the 5% level. As a result, larger bank size tends to be associated with better financial performance, particularly thanks to economies of scale, risk aggregation, and optimal diversification of resources and opportunities. This finding corroborates the results of Iraya et al (2015) and Rashid et al (2020).

Finally, while the correlation between the interest rate (measured as the prime lending rate) and ROE (a metric of deposit money bank financial success) is negative, it does not pass the significance test. Since a high cost of lending deters consumers, it appears that rising lending rates reduce deposit money institutions' capacity to issue loans to clients. As a result, interest income is reduced, which negatively affects deposit money banks' financial performance. Higher interest rates may also result in more loans that default, which would be bad for DMBs' profitability. The discovery backs up the findings of Uwubanmwon and Ikponmwosa (2016).

### 4.3.3 Random Effect Results for CAR Model

**Table 4.4: Random-Effect Results for Capital Adequacy (CAR) Model**

<i>Variable</i>	<i>Coefficient</i>	<i>T-Ratio</i>	<i>Prob</i>
<i>C</i>	0.331	0.256	0.80
<i>ACSIZE</i>	0.210	2.073**	0.04
<i>FRQM</i>	0.126	1.904*	0.07
<i>ACINDP</i>	0.051	2.199**	0.03
<i>ACFEXP</i>	0.044	2.194**	0.03
<i>BINDP</i>	0.232	2.122	0.03
<i>BKSZ</i>	0.029	1.363	0.17
<i>INTR</i>	0.027	2.246	0.023
	Adjusted R <sup>2</sup> = 0.850	F = 24.30***	D.W = 1.67

**Note:** \*, \*\*, \*\*\*, implies statistical significance at 10%, 5 % and 1% levels, respectively

**Source:** Author's computations (2022) extracted from Eviews. 9.0.

In terms of individual performance of the explanatory variables of the model, audit committee size coefficient, audit committee independence, audit committee financial expertise, board independence management and interest rates are in the same direction. related to CAR and has its own significance at the 5% level. Clearly, better audit committee attributes, coupled with effective

corporate governance (as demonstrated by board independence) and high loan ratios tend to produce better corporate governance. better financial results for banks in Nigeria. Unlike the case of the ROE model, only the bank size coefficient, although positive, fails the test of significance. Invariably, larger bank size tends to have a more pronounced impact on depository bank ROE than CAR, which is typically based on converging Basel compliance policy. Given that the bank size ratio is positive and greater than 1, it can be inferred that larger bank size will improve the bank's performance in terms of capital adequacy, but the effect is small.

#### **4.4 Discussion of Findings and Policy Implications**

The results obtained in the empirical analysis are convincing and offer impressive political orientations. First, the results provide indications that audit committee attributes tend to exhibit different patterns and effects on measures of financial performance of depository banks in the United States. Nigeria. Consequently, the depository banks used in the study have idiosyncrasies that tend to affect their performance, with respect to relevant attributes of the audit committee. The individual audit committee attributes are therefore important in determining the financial performance of depository banks and are therefore not mutually exclusive.

Second, given the similarity in the relationship between the two measures of financial performance used (ROE and CAR), greater policy efforts and strategies are needed to align both, as they do not necessarily operate in watertight compartments. Invariably, policy and strategic efforts to enhance equity efficiency will also result in higher capital adequacy ratios, or risk-adjusted capital-to-assets ratios, for investors. Custodian bank. Thus, by implementing a conscious management policy aimed at improving the return on capital of banks, the capital adequacy ratio (or the risky capital/asset ratio), an indicator of on the stability of banks, also improved.

Third, the empirical results show that the strong impact of audit committee characteristics is related to the company's financial performance, when ROE and CAR are used as indicators of financial performance. By implication, audit committees of good size and composition, independent, financially sound and equipped with the necessary expertise capable of promoting the financial performance of depository banks in Nigeria . Therefore, the institutionalization of a strong audit committee is crucial to the financial performance of DMBs

in Nigeria. Fourth, empirical results show that good corporate governance will promote financial performance of deposit banks. Therefore, the ability of management to make reasonable discretionary decisions to improve the financial performance of the company depends on the extent of governance mechanisms, as well as the relevant attributes of the audit committee. The key corporate governance in this regard in the context of this study is board independence. By implication, management should aim to improve the financial performance of depository banks on better, efficient and sound corporate mechanisms (structures) with the mandate of the audit committee. This implies that good corporate governance structures, such as board independence, must be established and strictly followed to improve financial performance, stability, reputation and growth of deposit banks in Nigeria. Finally, the results clearly show that the interest rate (base rate) has a significant impact on the financial performance of depository banks in Nigeria. In particular, rising interest rates tend to discourage borrowing, leading to lower income (interest income for banks) and potentially exacerbating bad debt ratios. We tend to suggest that lending rates should be at levels that encourage real sector lending, with the simultaneous effect of increasing interest income for DMBs.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECCOMENDATIONS

#### 5.1 Introduction

This chapter focuses on the summary of findings from the empirical analysis as well as the conclusion. The policy recommendations necessitated by these findings are subsequently presented.

#### 5.2 Summary of Findings

This study examined the impact of audit committee attributes on the financial performance of listed companies in Nigeria with specific reference to custodial banks in Nigeria, using two measures: measure financial performance (ROE and CAR). Each of these variables is regressed on four attributes of audit committee, audit committee size, audit committee independence, audit committee meeting frequency, and audit committee financial expertise. . scale and a macroeconomic variable. control variable (interest rate/lending rate) for the period 2014-2020 for 13 listed DMBs. Descriptive statistics, correlation analysis, clustering OLS and panel data estimation methods were applied. Various analyzes were used to examine the relationship between audit committee attributes and financial performance of depository banks in Nigeria. Empirical results show that the audit committee attributes have a significant impact on the financial performance of depository banks in Nigeria.

Specifically, the following conclusions are drawn from the empirical analysis:

- (i) Audit committee size has a positive and significant impact on the financial performance of deposit money banks in Nigeria
- (ii) Audit committee independence is positively and significantly related to financial performance of deposit money banks in Nigeria.
- (iii) Audit committee frequency of meetings has a significant effect on financial performance of listed deposit money banks in Nigeria
- (iv) Audit committee financial expertise has a significant effect on financial performance of listed deposit money banks in Nigeria.
- (v) Board independence has a positive and significant influence on financial performance of listed deposit money banks in Nigeria
- (vi) Bank size is positively and significantly related to financial performance of listed deposit money banks in Nigeria, using return on equity (ROE) as a proxy measure, while the impact is weak when capital adequacy ratio (CAR) is used.
- (vii) Interest rate (deposit money bank lending rate) is negatively related to financial performance of listed deposit money banks in Nigeria, using return on equity (ROE), while a positive relationship is found in the case of capital adequacy ratio as a measure of financial performance.

### **5.3 Conclusion**

The authority of the audit committee is an essential and effective tool to improve the financial performance of deposit banks. The terms of reference and audit committee policies of depository banks play an important role in their financial performance. A strong audit committee is an essential

condition in the agency hypothesis where a balance must be struck between corporate goals and shareholder wealth maximization. As an executive part of a company's board of directors, act as a protected structure capable of seeking alignment between regulatory and statutory audits and reducing conflicts of interest ( i.e. litigation by management and statutory auditors) and thus reducing agency costs, the audit committee plays an important role in improving and stabilizing the financial performance of money banks. to send.

Undoubtedly, a strong, well-organized, independent and financially experienced audit committee is essential to the operation and growth of depository banks. Therefore, the management and boards of custodial banks should establish a strong audit committee, in addition to a strong corporate governance/organizational structure, so that problems can be minimized. related and improve the financial performance of depository banks in Nigeria.

#### **5.4 Policy Recommendations**

Base on the empirical findings of this study, the following policy recommendations are suggested for policy action:

- (i) Deposit money banks in Nigeria should institute sound, coherent and effective audit committee and corporate governance mechanisms that will enhance their financial performance.
- (ii) Appropriate and well-composed audit committee size should be created in deposit money banks in Nigeria to stimulate their financial performance.
- (iii) Audit committee independence should be institutionalized through greater number of independent or outside directors in the Audit committee to enhance effective and robust

and unbiased financial reporting and audit that is capable of enhancing financial performance of deposit money banks in Nigeria.

- (iv) In order to improve the financial performance of deposit money banks in Nigeria by utilizing the natural knowledge and expertise in finance that each member possesses, an appropriate and well-experienced audit committee with the necessary financial expertise should be formed.
- (v) In order to successfully monitor the financial status of deposit money institutions on a regular basis, the audit committee should meet more frequently. The more frequently they meet, the better they are able to fulfill their oversight duties, which tends to boost financial performance.
- (vi) Banks should implement policies and techniques to expand. To encourage financial performance, this should be combined with the required managerial effectiveness (to prevent diseconomies of scale).
- (vii) The Nigerian monetary authorities should set an appropriate lending rate that can boost interest income and, as a result, improve the financial performance of deposit money institutions. For instance, efforts should be made to cut both the interest rate spread and the loan rate to a single digit level. This will improve the banking system's effectiveness and boost DMBs' financial performance.
- (viii) The regulators, such as the CBN, SEC and the NGX should ensure greater compliance of DMBs to extant regulatory provisions and code of corporate governance in Nigeria.

## **5.5 Contributions to Knowledge**

This study has contributed to knowledge in the following ways:

- (i) The study employed measures like capital adequacy ratio (CAR) not hitherto used in the literature as measure of deposit money bank performance. This is intuitive as the solvency, liquidity, solvency, stability and growth of deposit money banks hinges more on capital adequacy or capital to risk-weighted assets ratio than on profitability measures
- (ii) The study used recent and extended panel data to examine the subject matter, thereby making it relevant to current time.
- (iii) By using specific sectoral financial cross-section, the findings of the study is tenable for more focused policy prescriptions

## **5.6 Further Studies**

The following areas of further studies are suggested:

- (i) Further studies should increase the sample size to other sub-financial sectors, such as the insurance industry, and a mix of other non-financial firms to examine the subject matter to make the study more representative and robust.
- (ii) Further studies should include the effect of external (exogenous) macroeconomic factors, e.g. growth rate of real GDP and inflation as control variables in the audit committee-firm financial performance nexus.
- (iii) Future line of studies should employ the Generalized Method of Moments (GMM) techniques by studying the issue at cross-country level.



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## APPENDIX

### DATA

BANK	YEA R	ROE	CAR	ACSI ZE	FRQ M	AUD COM IND	ACFE XP	BINDP	INTR
ACCESS	2014	0.29	12.10	5	4	0.48	1	0.54	25.80
	2015	0.34	23.33	6	4	0.52	1	0.54	26.40
	2016	0.32	18.55	6	4	0.51	1	0.53	26.50
	2017	0.43	18.50	6	4	0.54	1	0.53	26.75
	2018	0.40	20.72	6	4	0.55	1	0.54	27.25
	2019	0.28	20.30	6	5	0.57	1	0.54	26.50
	2020	0.19	18.72	6	4	0.56	1	0.55	25.23
Union Bank	2014	0.66	18.70	6	5	0.49	1	0.52	25.80
	2015	2.20	20.50	6	5	0.52	1	0.52	26.40
	2016	1.62	9.52	6	6	0.55	1	0.50	26.50
	2017	1.50	13.60	6	6	0.57	1	0.53	26.75
	2018	2.75	25.10	6	4	0.59	1	0.53	27.25
	2019	3.89	16.95	6	4	0.58	1	0.52	26.50
	2020	3.15	15.88	6	5	0.54	1	0.57	28.20
FCMB	2014	2.62	22.20	6	4	0.56	1	0.46	25.80
	2015	9.62	23.15	6	4	0.53	1	0.42	26.40
	2016	2.36	25.50	6	4	0.50	1	0.46	26.50
	2017	6.53	20.60	6	4	0.52	1	0.38	26.75
	2018	2.13	19.70	6	4	0.57	1	0.48	27.25
	2019	2.48	19.25	6	4	0.58	1	0.43	26.50
	2020	4.77	15.23	6	4	0.56	1	0.45	25.23
Stanbic	2014	5.90	17.50	6	5	0.55	1	0.53	25.80
	2015	9.50	22.80	6	6	0.55	1	0.43	26.40
	2016	2.62	21.93	6	5	0.56	1	0.42	26.50
	2017	1.36	32.30	5	4	0.56	1	0.50	26.75
	2018	1.84	20.15	6	4	0.56	1	0.46	27.25
	2019	1.96	18.65	6	4	0.57	1	0.47	26.50
	2020	1.77	12.23	5	4	0.56	1	0.43	23.70
First Bank	2014	3.25	20.70	6	4	0.57	1	0.45	25.80
	2015	1.12	15.30	6	4	0.59	1	0.45	26.40
	2016	1.74	14.20	6	4	0.57	1	0.50	26.50
	2017	3.36	15.20	6	4	0.57	1	0.45	26.75
	2018	4.05	15.25	6	4	0.57	1	0.48	27.25
	2019	3.92	13.20	6	4	0.58	1	0.52	26.50
	2020	1.56	15.10	6	4	0.57	1	0.53	24.50
Fidelity Bank	2014	1.09	31.22	6	5	0.44	1	0.38	25.80
	2015	1.08	22.70	6	6	0.46	1	0.56	26.40
	2016	1.02	23.60	6	4	0.53	1	0.45	26.50
	2017	2.03	20.80	6	4	0.50	1	0.53	26.75
	2018	3.05	21.45	6	4	0.48	1	0.52	27.25
	2019	1.07	23.12	6	4	0.58	1	0.56	26.50

	2020	2.15	13.16	6	4	0.55	1	0.55	25.50
UBA	2014	1.09	15.23	6	4	0.57	1	0.48	25.80
	2015	1.20	14.22	6	4	0.56	1	0.51	26.40
	2016	2.27	21.20	6	4	0.53	1	0.45	26.50
	2017	3.15	18.58	6	4	0.58	1	0.49	26.75
	2018	1.09	26.30	6	4	0.55	1	0.48	27.25
	2019	2.02	18.05	6	5	0.57	1	0.46	26.50
	2020	1.77	16.30	6	4	0.58	0	0.55	25.25
	GTB	2014	1.50	20.10	6	6	0.52	1	0.45
2015		3.24	20.03	6	6	0.53	1	0.47	26.40
2016		2.12	22.15	6	4	0.54	1	0.46	26.50
2017		1.23	25.60	6	4	0.55	1	0.48	26.75
2018		40.07	25.50	6	5	0.55	1	0.47	27.25
2019		5.21	19.75	6	5	0.56	1	0.52	26.50
2020		4.86	18.75	6	4	0.59	1	0.54	25.30
ECO		2014	0.24	19.30	6	5	0.58	1	0.56
	2015	0.20	26.20	6	5	0.55	1	0.55	26.40
	2016	0.16	15.20	6	4	0.56	1	0.48	26.50
	2017	0.13	14.65	6	4	0.55	1	0.43	26.75
	2018	0.18	16.30	6	4	0.57	1	0.45	27.25
	2019	0.18	22.12	6	4	0.55	1	0.56	26.50
	2020	1.88	12.96	6	5	0.54	1	0.57	23.20
	Sterling	2014	0.08	18.44	6	6	0.50	1	0.50
2015		0.06	10.25	6	4	0.49	1	0.45	26.40
2016		0.05	20.10	6	4	0.47	1	0.52	26.50
2017		1.28	21.30	6	4	0.52	1	0.48	26.75
2018		1.56	15.73	5	4	0.51	1	0.45	27.25
2019		1.98	13.20	6	4	0.52	1	0.45	26.50
2020		1.26	10.85	5	5	0.49	1	0.56	25.20
WEMA		2014	0.72	12.50	6	4	0.49	1	0.50
	2015	0.58	16.15	6	4	0.52	1	0.46	26.40
	2016	0.56	15.01	6	4	0.54	1	0.48	26.50
	2017	0.55	4.52	6	4	0.53	1	0.50	26.75
	2018	0.45	18.70	6	4	0.55	1	0.49	27.25
	2019	0.50	21.15	6	4	0.52	1	0.45	26.50
	2020	1.22	16.23	6	5	0.51	1	0.52	26.40
	Zenith	2014	1.22	20.15	6	4	0.55	1	0.47
2015		2.59	20.60	6	4	0.53	1	0.45	26.40
2016		3.58	20.53	6	5	0.52	1	0.50	26.50
2017		4.52	21.50	6	4	0.50	1	0.46	26.75
2018		3.92	20.61	5	4	0.54	1	0.50	27.25
2019		2.98	21.33	6	4	0.53	1	0.45	26.50
	2020	3.55	18.80	6	4	0.57	1	0.55	25.75
Unity Bank	2014	2.15	22.42	6	6	0.61	1	0.45	25.80
	2015	3.19	21.00	6	5	0.59	1	0.48	26.40
	2016	3.21	25.30	6	5	0.59	1	0.50	26.50
	2017	1.13	22.82	6	6	0.52	1	0.46	26.75

	2018	0.09	7.70	6	5	0.53	1	0.54	27.25
	2019	1.08	19.31	6	4	0.52	1	0.53	26.50
	2020	2.78	13.26	6	4	0.55	1	0.54	24.65

**Sources:** *Authors compilation and computation from DMBs Audited Annual Financial Reports of the various years ranging from 2014 to 2020.*