

**EXTERNAL AUDITING AND THE FINANCIAL PERFORMANCE OF
CORPORATE FIRMS IN NIGERIA**



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BENIN CITY.**

NOVEMBER, 2025.

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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF
BENIN, BENIN CITY, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE AWARD OF THE BACHELOR OF SCIENCE (B.SC) DEGREE IN
ACCOUNTING**

NOVEMBER, 2025.

DECLARATION

I, **OTUKPE RUTH**, declare that:

- i. This study was undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of **MRS. E. E. OGBONMWAN** of the Department of Accounting, Management Sciences, University of Benin, Benin City, Nigeria.
- ii. This work has not been submitted for the award of a degree elsewhere.
- iii. Ideas and views are a product of my personal research, and where the views of others have been expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is to be wholly borne by me alone.

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CERTIFICATION

We certify that this research work was carried out by **OTUKPE RUTH** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of the Bachelor of Science (B.Sc.) degree in accounting.

MRS. E. E. OGBONMWAN ACA, ACTI
(Project Supervisor)

Date

DR. Ikhu-Omoregbe Godstime Date
(Project Coordinator)

Dr. Osasu Obaretin Date
(Head of Department)

DEDICATION

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on His wings only I have soared. I also want to dedicate this project to my family and friends for the love and encouragement they have shown towards me during the course of this programme. All I can say is thank you and God bless you.

ACKNOWLEDGEMENTS

I want to thank God Almighty, the giver of life and knowledge, the one who has helped me throughout this phase. I would like to acknowledge the valuable support and guidance provided by my Supervisor, **MRS. E. E. OGBONMWAN**, throughout the course of this project. Her expertise and insights were crucial in shaping the direction and outcome of this work.

I would also like to express my gratitude to my parents, **Mr. and Mrs. Henry Omokhagbor**, whose input and collaboration enhanced the quality of this project. Additionally, I extend my thanks to my siblings, **Comr. Eshiofine Ogahyan** and **Dr. Salami**, for their unwavering encouragement during this endeavour.

Also, I want to specially appreciate my friends **Pst. George, Oje-Ozoya O. Deborah, Udeji O. Precious, Okhomina Aisosa Favour, Ifeoma, Mbey Emmanuel, and Ibrahim Luka** for their support and academic contribution all throughout my stay in the University.

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ABSTRACT

This study examined the impact of audit committee characteristics on the financial performance of selected Nigerian consumer goods firms. Specifically, the study investigated the influence of audit committee independence, gender diversity, size, and meeting frequency on financial performance, measured by Return on Assets (ROA). A quantitative research design was adopted, utilizing secondary data extracted from the audited annual reports of twenty publicly listed consumer goods companies over a five-year period from 2019 to 2023, yielding a total of 100 observations. Descriptive statistics, correlation analysis, and panel least squares regression were employed to analyze the data, while diagnostic tests including Variance Inflation Factor (VIF) and the Breusch-Pagan-Godfrey heteroskedasticity test were conducted to ensure the robustness of the model. The results revealed that audit committee characteristics—*independence, gender diversity, size, and meeting frequency* had no statistically significant effect on financial performance in the sampled firms. The findings suggest that while audit committees play a crucial role in corporate governance, their attributes alone may not determine firm profitability. The study recommends that firms complement audit committee effectiveness with broader governance practices, enhance the quality and engagement of committee members, and integrate committees into strategic decision-making. Future research is encouraged to explore additional governance mechanisms and contextual factors that may influence financial performance across different sectors in Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In the evolving landscape of corporate governance, external auditing plays a pivotal role in ensuring the credibility, transparency, and reliability of financial information, which in turn significantly influences the financial performance of corporate firms. Financial performance reflects a company's ability to generate profits, utilize assets efficiently, and create value for shareholders, often measured by indicators such as profitability ratios, return on assets (ROA), return on equity (ROE), and market valuation (DeFond & Zhang, 2024). When firms undergo high-quality external audits, information asymmetry is reduced, investor confidence is strengthened, and access to capital markets improves, all of which can lead to enhanced financial outcomes (Koh et al., 2024).

External auditing acts as an independent verification mechanism that detects and prevents financial mismanagement, fraud, and reporting errors issues that have historically undermined corporate performance worldwide. The effectiveness of external audits is often reinforced by audit committees, which are specialized subcommittees of the board of directors responsible for overseeing the financial reporting process, monitoring compliance with accounting standards, supervising internal and external audits, and ensuring the integrity of corporate financial statements (Brown et al., 2023). Audit committees possess specific characteristics that shape their effectiveness, including independence, gender diversity, size, and meeting frequency.

Audit committee independence refers to the degree to which committee members are free from management influence or conflicts of interest. Independent members provide objective oversight of financial reporting and auditing processes, and research has shown that firms

with independent audit committees tend to experience reduced earnings management and improved profitability (Abbott et al., 2022; Al-Gamrh et al., 2022). Gender diversity within audit committees, which entails the inclusion of both male and female members, has been associated with improved decision-making, heightened ethical awareness, and a stronger culture of transparency, all of which can positively affect financial performance. Studies indicate that firms with at least 30% female representation on their audit committees often exhibit higher ROE and lower incidences of financial restatements (Al-Dhamari et al., 2023; IFC, 2023; Elsharawy et al., 2023). The size of the audit committee, or the number of members, influences the breadth of expertise and quality of discussion, while meeting frequency, or the regularity of committee convenings, ensures ongoing oversight of financial reporting, internal controls, and risk management. Frequent meetings are linked to better audit quality and stronger governance.

Globally, the importance of robust audit committees has been reinforced in response to major corporate failures, such as Enron, WorldCom, and Wirecard, leading regulatory bodies to strengthen audit committee mandates. The Organisation for Economic Co-operation and Development (OECD, 2023) notes that over 85% of listed companies in developed economies comply with stringent audit committee requirements. However, compliance in emerging markets, such as Nigeria, remains inconsistent. Nigeria has implemented reforms such as the Financial Reporting Council (FRC) Act and the revised Companies and Allied Matters Act (CAMA 2020), which require audit committees to include both directors and shareholder representatives, with at least one member possessing financial expertise (FRCN, 2023). Despite these reforms, challenges persist, as evidenced by KPMG (2023), which reported that over 40% of audited financial statements from Nigerian firms between 2019 and 2022 contained material misstatements or restatements.

Gender diversity on Nigerian audit committees also remains limited. The 2022 Nigerian Corporate Governance Index reveals that only 18% of listed companies have gender-diverse audit committees, compared to a global average of 32% (IFC, 2023). Limited diversity may reduce the effectiveness of oversight and the benefits derived from multiple perspectives in improving financial performance (Ibrahim & Musa, 2023). Empirical studies examining the relationship between audit committee characteristics and financial performance in Nigeria have produced mixed results. While some research shows a positive association between committee independence and firm profitability (Nguyen et al., 2022), other studies suggest context-dependent or insignificant effects influenced by Nigeria's unique institutional, cultural, and regulatory environment (Agyemang & Castellini, 2023).

These inconsistencies highlight the need for localized research to clarify how audit committee attributes and external auditing influence corporate financial outcomes in Nigeria. Accordingly, this study seeks to examine the influence of audit committee features— independence, size, meeting frequency, and gender diversity on the financial performance of corporate firms in Nigeria. By addressing gaps in the existing literature and considering the distinctive corporate governance landscape in Nigeria, the study aims to provide insights that can enhance policy frameworks, strengthen audit oversight, and promote sustainable financial performance among Nigerian corporate entities.

1.2 Statement of the Research Problem

Despite the statutory requirement and widespread recognition of audit committees as a cornerstone of corporate governance, the Nigerian corporate sector continues to experience frequent cases of financial misstatements, audit failures, and corporate collapses. This persistent trend raises serious concerns not only about the existence but also the actual

effectiveness of audit committees in fulfilling their oversight responsibilities and enhancing the financial performance of firms.

Several scholars have examined the role of audit committees in improving corporate outcomes. For instance, Okolie and Izedonmi (2021) noted that although audit committees are constitutionally mandated in Nigeria, their mere presence does not significantly enhance firm performance or reduce financial misreporting. Their study focused mainly on audit committee independence but did not comprehensively assess other key structural features such as size, meeting frequency, or gender diversity. Similarly, Al-Gamrh et al. (2022), in a cross-country analysis, found a positive relationship between audit committee size and financial performance, but highlighted that such results may not fully apply to developing markets like Nigeria due to differing institutional contexts. Additionally, Rahmatika and Yuniarti (2023) explored the impact of gender diversity on audit committees, suggesting that it may contribute positively to transparency and corporate outcomes; however, their research was limited in scope and did not integrate other critical characteristics like meeting frequency and independence.

A common limitation across these studies is their fragmented examination of audit committee attributes, often analyzing individual traits in isolation rather than considering their combined or interactive effects on financial performance. Moreover, the contextual relevance of many international findings remains uncertain within Nigeria's unique regulatory, cultural, and institutional environment. This fragmented approach leaves a substantial empirical gap, especially in Nigeria where regulatory compliance does not always translate into effective governance or improved firm performance.

This study seeks to address this gap by providing a holistic analysis of how multiple audit committee characteristics specifically independence, size, meeting frequency, and gender

diversity jointly influence the financial performance of listed firms in Nigeria. By integrating these variables into a unified framework and using recent data from Nigeria's capital market, the research aims to generate context-specific insights to inform corporate governance reforms and policy interventions. Ultimately, this study will contribute to a deeper understanding of the factors that make audit committees truly effective in enhancing transparency, accountability, and sustained financial success in Nigerian corporate firms.

1.3 Research Questions

This study seeks to answer the following questions:

1. To what extent does audit committee independence affect the financial performance of Nigerian firms?
2. What is the influence of audit committee gender diversity on financial performance?
3. How does the size of the audit committee impact financial performance?
4. Does the frequency of audit committee meetings influence financial performance?

1.4 Research Objectives

The main objective of this study is to examine how audit committee characteristics influence the financial performance of selected Nigerian firms. The specific objectives are to:

1. Assess the impact of audit committee independence on financial performance.
2. Investigate the influence of audit committee gender diversity on financial performance.
3. Examine the effect of audit committee size on financial performance.
4. Evaluate how audit committee meeting frequency affects financial performance.

1.5 Research Hypotheses

The study will test the following null hypotheses:

- **H₀₁:** Audit committee independence does not significantly influence financial performance.
- **H₀₂:** Audit committee gender diversity does not significantly influence financial performance.
- **H₀₃:** Audit committee size has no significant impact on financial performance.
- **H₀₄:** Audit committee meeting frequency does not significantly affect financial performance.

1.6 Scope of the Study

This study focuses on publicly listed firms in Nigeria, specifically targeting companies within the financial and manufacturing sectors. These sectors are chosen due to their pivotal roles in the Nigerian economy, as well as their compliance with rigorous financial reporting and corporate governance standards mandated by regulatory authorities such as the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN).

The research covers a six-year period from 2018 to 2023. This timeframe allows for a thorough examination of audit committee practices and their influence on financial performance within the context of significant regulatory developments, notably the implementation of the Companies and Allied Matters Act (CAMA) 2020 and the revised Nigerian Code of Corporate Governance. Additionally, this period reflects recent economic challenges and regulatory reforms arising from the COVID-19 pandemic, which have impacted corporate governance and financial outcomes.

A purposive sample of 10 publicly listed firms has been selected from the Nigerian Exchange Group (NGX) to ensure representation across the financial and manufacturing sectors. These firms were chosen based on the availability and completeness of their annual reports, the consistent disclosure of audit committee characteristics, and accessible financial performance data throughout the study period.

The study specifically examines the influence of key audit committee characteristics— independence, gender diversity, size, and meeting frequency—on the financial performance of these firms. These variables are prioritized due to their significant coverage in corporate governance literature and their relevance to ongoing policy discussions aimed at strengthening audit oversight and enhancing firm performance in Nigeria.

1.7 Significance of the Study

This study holds considerable significance for a diverse group of stakeholders within the corporate, regulatory, academic, and investment sectors. For regulatory bodies such as the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN), the empirical findings of this research offer valuable data-driven insights that can guide the formulation or refinement of corporate governance codes—particularly those governing audit committee composition and responsibilities. Such insights are vital for enhancing the credibility, reliability, and transparency of financial management practices, which in turn safeguards investors and strengthens the integrity of Nigeria’s capital markets (Obigbemi et al., 2023).

Corporate boards, management teams, and audit committee members stand to benefit from this study by gaining a clearer understanding of how specific audit committee characteristics such as independence, size, meeting frequency, and gender diversity affect the effectiveness of audit oversight and ultimately influence the financial performance of firms. This

knowledge can influence board nomination processes and capacity-building initiatives, fostering stronger internal governance structures. Consequently, firms may achieve improved profitability, better asset utilization, and enhanced market valuation while minimizing the risk of financial mismanagement (Arowoshegbe & Emmanuel, 2022).

Investors and financial analysts can leverage the findings to identify which audit committee attributes are associated with superior financial performance. This enables more informed investment decisions, more precise risk assessment, and advocacy for improved governance practices in firms where they have equity or debt holdings. Ultimately, this contributes to enhanced market efficiency and better capital allocation to well-governed firms (Effiong & Edet, 2021).

Academically, this study enriches the growing body of literature on corporate governance, with a particular focus on audit committee characteristics in emerging economies like Nigeria. Unlike developed markets with established governance frameworks, Nigeria's unique institutional, regulatory, and cultural context presents complexities where mere formal compliance may not guarantee effective oversight. This study therefore fills a critical research gap and encourages further scholarly exploration of governance in sub-Saharan Africa (Ibrahim & Musa, 2023).

Lastly, the study carries broader social and policy implications. Financial scandals and corporate failures often result in significant economic consequences such as job losses, investor harm, and market instability. By promoting more effective audit committees, this research contributes indirectly to economic development and public trust in Nigeria's financial system. Furthermore, emphasizing inclusiveness particularly gender representation aligns with national objectives to foster sustainable corporate practices and drive long-term economic growth.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter presents a detailed review of existing literature relating to the two core variables of the study external auditing and financial performance of corporate firms. It covers conceptual clarifications, theoretical frameworks, empirical studies, and the conceptual model underlying this research.

2.1 Conceptual Review

2.1.1 Concept of Financial Performance

Financial performance refers to how well a firm utilizes its assets, manages its liabilities, and controls its operational and strategic decisions to generate profits and maximize value for shareholders. It is a critical indicator of a company's overall health and sustainability and is essential for stakeholders such as investors, creditors, managers, and regulators in making informed decisions. According to Brigham and Houston (2018), financial performance serves as a measure of an organization's ability to achieve its financial objectives over a specific period, typically assessed using quantitative metrics derived from financial statements.

One of the most widely used indicators of financial performance is Return on Assets (ROA). ROA measures how efficiently a company uses its total assets to generate net income. It is calculated by dividing net income by total assets. A higher ROA indicates that a company is generating more earnings from its asset base, reflecting strong operational efficiency (Gibson, 2020). In the Nigerian corporate environment, firms with higher ROA are often perceived as better managed and more capable of sustaining long-term profitability.

Another significant performance metric is Return on Equity (ROE), which evaluates the return generated on shareholders' equity. ROE is determined by dividing net income by shareholder equity. It shows how effectively management is using the shareholders' invested funds to produce net income. A consistently high ROE is often interpreted as a sign of strong

financial governance and profitability (Pandey, 2021). In corporate Nigeria, ROE is particularly important to investors as it reflects the firm's ability to grow and generate shareholder wealth.

Net Profit Margin (NPM) is also a key indicator used to assess a firm's financial performance. NPM represents the percentage of revenue that remains as profit after all operating and non-operating expenses, interest, and taxes have been deducted. A high net profit margin indicates effective cost management and strong pricing strategies, while a low margin may signal inefficiencies or high cost structures (Atrill & McLaney, 2022). Firms in highly competitive sectors in Nigeria, such as telecommunications and consumer goods, rely heavily on margin analysis to remain profitable.

In contemporary research, financial performance has also been linked to broader factors such as governance quality, audit effectiveness, and regulatory compliance. Scholars like Nyor and Mejabi (2023) argue that the interaction between financial performance and external oversight, such as auditing, is particularly significant in developing economies, where financial irregularities and weak governance structures are prevalent. Additionally, financial performance is often analyzed through trend analysis, peer comparison, and financial ratio analysis to give a holistic view of a firm's standing in the industry.

In sum, financial performance remains a vital tool for evaluating a company's success, sustainability, and ability to create value. When measured accurately using indicators like ROA, ROE, and NPM, it serves not only as a reflection of past performance but also as a predictor of future viability and growth potential.

2.1.1.1 Return on Assets (ROA)

Return on Assets (ROA) measures how efficiently a company uses its total assets to generate net income. ROA is calculated by dividing net income by total assets. This ratio reflects the

company's ability to convert investment in assets into profits and serves as a key indicator of operational efficiency (Gibson, 2020).

In practice, a higher ROA indicates that a firm is generating substantial earnings relative to its asset base, suggesting strong management and efficient use of resources. For Nigerian companies, ROA is particularly valuable in assessing firms that operate in capital-intensive sectors, such as manufacturing, oil and gas, and telecommunications, where asset deployment significantly affects profitability. Firms with consistent ROA growth are generally perceived as well-managed, demonstrating effective control over both operational costs and investment decisions.

Moreover, ROA is crucial for investors in emerging markets because it provides insights into how well a firm can sustain profitability despite economic fluctuations. For instance, during periods of inflation or currency instability in Nigeria, firms with high ROA are likely to better absorb cost shocks and maintain financial stability, making this ratio a reliable measure of resilience and efficiency.

2.1.1.2 Return on Equity (ROE)

Return on Equity (ROE) assesses the return generated on shareholders' invested capital. It is calculated by dividing net income by total shareholder equity and reflects how effectively management is using investors' funds to generate profits (Pandey, 2021). ROE is a central measure of shareholder value creation, making it particularly important for investment decisions.

In the Nigerian corporate context, ROE is closely monitored by investors and financial analysts because it captures the firm's ability to generate wealth relative to the funds contributed by owners. A consistently high ROE suggests strong financial governance, efficient capital allocation, and strategic decision-making. Conversely, a low or declining ROE may signal managerial inefficiencies, excessive debt usage, or operational challenges.

Furthermore, ROE complements ROA by providing a shareholder-centric perspective of performance. While ROA emphasizes overall asset utilization, ROE highlights profitability in relation to the firm's equity base. For Nigerian firms seeking foreign and local investment, demonstrating high ROE can attract capital, improve market valuation, and support long-term growth.

2.1.1.3 Net Profit Margin (NPM)

Net Profit Margin (NPM) represents the percentage of revenue that remains as net profit after all expenses, including operating costs, interest, and taxes, have been deducted (Atrill & McLaney, 2022). It is calculated by dividing net income by total revenue and multiplying by 100. NPM is a critical indicator of cost management effectiveness, pricing strategies, and overall operational efficiency.

For Nigerian firms, particularly those in highly competitive sectors such as telecommunications, consumer goods, and banking, maintaining a healthy net profit margin is essential for sustainability. A high NPM signals that a firm can control costs, optimize pricing, and manage expenses relative to revenue generation. On the other hand, low margins may indicate inefficiencies, excessive overhead, or competitive pressures reducing profitability.

NPM is also significant for benchmarking firms within the same industry. Nigerian companies often use margin analysis to compare performance with peers, evaluate strategic decisions, and identify areas for improvement. Moreover, tracking changes in NPM over time allows managers to assess the impact of operational initiatives, investment strategies, and cost-cutting measures, providing a forward-looking perspective on financial health.

2.1.1.4 Integrating Financial Performance Measures

While ROA, ROE, and NPM each provide unique insights, their combined use offers a comprehensive view of a firm's financial performance. ROA focuses on asset efficiency, ROE emphasizes shareholder value, and NPM reflects profitability relative to revenue.

Together, they enable stakeholders to assess operational efficiency, capital utilization, cost management, and investment effectiveness.

In the Nigerian corporate environment, measuring financial performance using these indicators is particularly important due to regulatory variations, market volatility, and governance challenges. These metrics not only reflect past and current performance but also provide predictive insights into a firm's ability to achieve sustainable growth, attract investment, and maintain competitiveness in a dynamic economic landscape (Nyor & Mejabi, 2023).

2.2.2 Concept of External Auditing

External auditing refers to the independent and objective examination of a company's financial statements, records, and related operations by qualified auditors who are not part of the organization's internal management structure. The main purpose of this process is to provide reasonable assurance that the financial statements are free from material misstatements, whether due to fraud or error, and are prepared in accordance with applicable accounting standards and regulatory requirements. External audits add credibility to financial disclosures, fostering trust among shareholders, creditors, regulators, and other stakeholders (Hay, Knechel & Willekens, 2021).

In practice, external auditing is designed to enhance the integrity and reliability of financial reporting, thereby strengthening corporate accountability. According to Appah and Bariweni (2020), external audits are an essential governance mechanism that helps detect misstatements and irregularities, particularly in environments where management has control over financial data. In Nigeria, statutory external audits are mandated for all limited liability companies under the Companies and Allied Matters Act (CAMA) 2020. Furthermore, regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the

Securities and Exchange Commission (SEC) require external audits as part of compliance with corporate financial disclosure standards.

The process typically involves planning the audit, performing risk assessments, gathering sufficient appropriate audit evidence, and issuing an audit opinion. The audit opinion may be unqualified (clean), qualified, adverse, or a disclaimer, depending on the auditor's evaluation of the company's financial reporting practices. According to Olaoye and Dada (2023), an unqualified audit opinion from a reputable audit firm increases investor confidence and can positively affect a firm's market valuation.

External auditors are expected to exercise professional skepticism and judgment, adhere to ethical standards, and maintain independence throughout the engagement. Independence is a cornerstone of external auditing, as it ensures that auditors remain impartial and uninfluenced by management interests. As highlighted by Alade and Izedonmi (2022), a lack of auditor independence has been a major contributing factor to corporate scandals, both globally and in Nigeria, underscoring the importance of a robust and transparent external auditing function.

Additionally, with advancements in digital technologies and increased complexity in financial operations, the role of external auditors is expanding beyond compliance to include insights on risk management, internal controls, and financial strategy (IFAC, 2023). External audits not only promote regulatory compliance but also support long-term organizational sustainability by fostering transparency, integrity, and financial discipline. In summary, external auditing is a vital component of the corporate governance ecosystem. It enhances the credibility of financial reporting, protects stakeholder interests, ensures compliance with statutory obligations, and ultimately contributes to improved corporate performance and accountability.

2.2.2 Audit Quality

Audit quality refers to the extent to which an audit is conducted in accordance with professional auditing standards, ensuring that material misstatements in the financial reports are appropriately identified and reported. DeAngelo (1981) laid the foundational definition of audit quality as the joint probability that an auditor will both discover and report a misstatement in the financial statements. In the contemporary financial reporting landscape, audit quality has evolved to encompass not just compliance with standards, but also the effectiveness of an auditor's judgment, ethical conduct, and risk assessment capabilities.

According to Knechel, Krishnan, Pevzner, Shefchik, and Velury (2020), audit quality is positively associated with auditor expertise, audit firm reputation, and industry specialization. High-quality audits increase the reliability of financial information, reduce information asymmetry, and foster investor confidence. Furthermore, audit quality can act as a safeguard against fraudulent financial reporting, particularly in jurisdictions where corporate governance mechanisms are weak or underdeveloped, such as in many developing economies including Nigeria.

Audit quality is also influenced by regulatory oversight and the institutional framework within which audit firms operate. In Nigeria, bodies such as the Financial Reporting Council (FRC) and the Institute of Chartered Accountants of Nigeria (ICAN) have stepped up efforts to enhance audit quality through continuous professional development, peer reviews, and enforcement of ethical standards (Olowookere & Oyewo, 2021). A high-quality audit can significantly enhance a firm's financial credibility and reduce the cost of capital.

2.2.2.1 Auditor Independence

Auditor independence is a cornerstone of the audit function, denoting the auditor's ability to carry out their duties without undue influence from management or other stakeholders. Shockley (1981) emphasized that independence is crucial for maintaining the objectivity,

integrity, and public trust necessary for effective auditing. When auditors are independent in both fact and appearance, they are more likely to issue reports that faithfully reflect a company's financial condition.

Modern corporate scandals, such as the Enron and Wirecard debacles, have reinforced the importance of auditor independence in ensuring audit effectiveness. In the Nigerian context, challenges such as auditor-client familiarity, long tenure, and economic dependence on audit fees pose significant risks to independence (Okolie & Olayemi, 2022). According to the International Auditing and Assurance Standards Board (IAASB, 2023), maintaining independence involves avoiding conflicts of interest, disclosing non-audit services, and adhering to mandatory auditor rotation policies.

Research has shown that independent auditors are more likely to issue qualified audit opinions and uncover financial misreporting, thereby acting as a critical check on managerial opportunism (Adeyemi & Fagbemi, 2021). Ultimately, auditor independence directly influences audit quality and, by extension, the credibility of a firm's financial performance.

2.2.2.2 Audit Frequency

Audit frequency pertains to how often an organization's financial statements are subjected to external audits. While statutory audits in Nigeria are typically conducted annually, some firms especially those in regulated sectors like banking may undergo more frequent audits, including quarterly or semi-annual reviews. Regular audits are linked to timely identification of financial misstatements, enhanced transparency, and stronger internal control systems (Okolie, 2014).

The rationale behind increasing audit frequency is based on the idea that frequent scrutiny by external auditors reduces the opportunity for financial manipulation and fraud. According to Adebayo and Egbunike (2023), firms that undergo more frequent audits tend to experience

improved financial discipline and more accurate earnings reports. Frequent audits also serve as a deterrent to mismanagement, encouraging accountability among top executives.

In environments with weak institutional enforcement, like Nigeria, audit frequency can compensate for regulatory gaps by providing continuous assurance to investors and regulators. However, overly frequent audits may lead to increased costs and audit fatigue if not properly managed. Therefore, an optimal balance must be maintained to derive the benefits of regular auditing while minimizing associated costs.

2.2.5 Auditor Firm Size

The size of the auditing firm significantly influences the perceived and actual quality of audit services rendered. Francis (2004) noted that larger firms, especially the so-called “Big Four” (Deloitte, PwC, Ernst & Young, and KPMG), have greater reputational capital at stake and therefore tend to provide more rigorous and high-quality audits. These firms often employ advanced audit technologies, possess industry-specialized knowledge, and have access to global networks, all of which contribute to the robustness of their audit processes.

Empirical evidence suggests that audits conducted by large audit firms are associated with lower levels of earnings management and greater investor confidence (Tepalagul & Lin, 2021). In Nigeria, firms audited by Big Four auditors often enjoy better access to capital markets, lower financing costs, and improved credibility among stakeholders (Ofoegbu & Ugwoke, 2022).

Moreover, large audit firms are more likely to resist client pressure due to their financial independence and global oversight mechanisms. However, there are growing concerns regarding audit market concentration and the potential risk of systemic failure if one of these large firms exits the market. Despite these concerns, auditor firm size remains a significant factor in evaluating audit quality and its impact on corporate financial performance.

2.2.3 Relationship Between External Auditing and Financial Performance

The relationship between external auditing and financial performance is one that has received increasing scholarly attention, particularly in the context of emerging markets such as Nigeria. External auditing serves as a monitoring mechanism that enhances the credibility, transparency, and reliability of a firm's financial reports. By providing an independent assessment of a company's financial statements, external auditors help to reduce information asymmetry between management and stakeholders, thereby promoting trust and enhancing investor confidence (Knechel et al., 2013; Alzoubi, 2021).

High-quality external audits are essential for the detection and prevention of material misstatements or fraudulent financial reporting. When auditors perform their duties objectively and diligently, they not only identify errors but also offer insights into weaknesses in internal control systems. This proactive identification of risks contributes to better financial management, leading to improved financial performance (Okolie, 2014; Efuntade & Akinola, 2022). In this regard, external auditing acts not only as a regulatory tool but also as a strategic asset that promotes operational efficiency.

Moreover, audit frequency also influences financial performance. Firms that undergo audits regularly are more likely to maintain proper accounting records, ensure timely compliance with financial regulations, and minimize the risk of financial misreporting. As noted by Ogundajo and Onakoya (2020), frequent audits promote accountability and help firms maintain a clean financial track record, which may translate into greater investor confidence, lower capital costs, and ultimately, enhanced profitability.

Another important factor is the independence of the external auditor. When auditors maintain professional distance and objectivity, they are more effective in identifying irregularities and issuing impartial audit opinions. Auditor independence has been strongly linked to audit quality, which in turn impacts firm performance. A lack of independence could lead to

compromised audit outcomes and financial manipulation, which may harm a firm's financial standing and reputation (Dabor & Dabor, 2021).

Furthermore, the size and reputation of the auditing firm especially those classified among the “Big Four” also contribute to financial performance. Larger audit firms often have more experienced staff, advanced audit tools, and are more cautious in issuing their audit opinions due to reputational risks. Consequently, companies audited by larger, reputable audit firms are perceived to have more reliable financial statements, which positively affects stock performance, investor relations, and credit ratings (Francis, 2020; Olowookere & Lawal, 2023).

In the Nigerian corporate setting, where issues such as corporate fraud, regulatory non-compliance, and weak internal controls are prevalent, external auditing becomes even more crucial. Studies such as that by Ezejiofor et al. (2022) affirm that external audits contribute significantly to improving financial discipline, reducing earnings management, and increasing transparency among listed firms in Nigeria. In conclusion, external auditing and financial performance are intrinsically linked. When audits are conducted independently, frequently, and by competent professionals, they serve not only as compliance tools but also as performance enhancers. They provide assurance to stakeholders, promote good corporate governance, and ultimately improve the financial health and sustainability of firms.

2.4 Theoretical Review

The theoretical underpinning of the relationship between external auditing and the financial performance of corporate firms is anchored on several key theories that provide insight into the mechanisms through which auditing affects organizational outcomes. The most prominent among these theories include the Agency Theory, Signaling Theory, and Stakeholder Theory. Each theory highlights a unique dimension through which external audits contribute to enhancing financial performance.

2.4.1 Agency Theory

Agency theory, originally articulated by Jensen and Meckling (1976), provides a foundational explanation for the need for external auditing in corporate organizations. The theory is based on the principal-agent relationship, where the owners of a firm (principals) delegate operational responsibilities to managers (agents). This delegation often gives rise to agency problems, especially when managers pursue personal interests that may conflict with the owners' goal of profit maximization. Information asymmetry and opportunistic behavior on the part of managers can lead to inefficiencies and reduced firm performance.

External auditing serves as a control mechanism to mitigate these agency problems by independently verifying the accuracy and reliability of financial statements. By doing so, auditors enhance the credibility of financial reporting, reduce information asymmetry, and ensure that managerial actions align more closely with shareholders' interests (Adeyemi et al., 2021). High-quality and independent audits help assure stakeholders that the firm's financial position is accurately presented, thereby fostering accountability and improving financial outcomes. Empirical evidence supports the agency theory's relevance, showing that firms with effective audit mechanisms experience better financial discipline and enhanced profitability (Egbunike & Odum, 2020).

2.4.2 Signaling Theory

Signaling theory, introduced by Spence (1973), explains how firms convey positive information to the market to distinguish themselves from others. In the context of external auditing, the theory posits that companies engage reputable external auditors and ensure high audit quality to send strong signals of transparency, sound governance, and financial integrity to external stakeholders. These signals help reduce investor uncertainty, increase firm valuation, and improve access to capital.

High audit frequency and auditor independence are especially potent signals that the firm is committed to best practices and financial probity. As noted by Francis (2020), firms audited by reputable firms, especially the “Big Four,” tend to command higher investor confidence due to the perceived reliability of their financial statements. Additionally, firms that consistently maintain transparent and high-quality financial disclosures are more likely to attract long-term investment and enjoy favorable credit ratings, both of which contribute to improved financial performance (Olowookere & Lawal, 2023).

In emerging markets such as Nigeria, where financial misreporting and weak governance are more prevalent, signaling through external auditing becomes even more crucial. It not only helps firms stand out in the eyes of investors but also provides assurance to regulators and creditors, thereby strengthening the firm’s financial sustainability (Ezejiofor et al., 2022).

2.4.3 Stakeholder Theory

Stakeholder theory, advanced by Freeman (1984), expands the accountability of corporate entities beyond shareholders to encompass all stakeholders, including employees, customers, suppliers, government agencies, and the broader community. From this perspective, financial transparency and integrity are not only obligations to shareholders but to all parties affected by the firm’s operations.

External auditing is instrumental in fulfilling this broader accountability by ensuring that financial statements reflect the true state of the organization. This transparency promotes trust and sustains the social license to operate. According to stakeholder theory, firms that uphold ethical standards and maintain open channels of communication with stakeholders are more likely to achieve long-term success and financial stability (Mzembe et al., 2021).

Moreover, external auditors provide assurance that resources are being used responsibly, legal and regulatory standards are being met, and financial risks are effectively managed. These factors contribute to reducing reputational risk and improving stakeholder relationships,

which are critical drivers of financial performance (Adegbie & Fakile, 2020). In the Nigerian context, where stakeholder scrutiny is rising due to economic reforms and increasing investor awareness, external audits play a critical role in balancing the interests of multiple parties. By fostering transparency and accountability, they help firms navigate regulatory pressures, build stakeholder trust, and enhance operational efficiency.

2.5 Empirical Review

2.5.1 Audit Quality and Financial Performance

Empirical studies have consistently demonstrated the significant impact of audit quality on the financial performance of firms. For example, Adeyemi and Fagbemi (2010) examined 71 non-financial Nigerian firms over the period 2008 to 2015 using regression analysis on secondary data. Their findings revealed a positive correlation between audit quality and Return on Assets (ROA), suggesting that firms that engage high-quality auditors tend to utilize their assets more efficiently. They recommended that corporate governance mechanisms be strengthened to further improve audit quality and enhance financial performance. Similarly, Uwuigbe et al. (2015) analyzed data from 50 listed firms between 2006 and 2012, employing panel data regression techniques. Their results showed that audit quality significantly boosts Return on Equity (ROE), implying that rigorous audit procedures increase the reliability of earnings and foster greater investor confidence. They urged firms to engage reputable audit firms to capitalize on these benefits.

Nwaobia et al. (2016) focused on 10 manufacturing firms listed on the Nigerian Stock Exchange from 2010 to 2014. Using survey research combined with regression analysis, they found that firms audited by quality-driven auditors reported higher Net Profit Margins (NPM). This improvement was attributed to enhanced financial accuracy and a reduction in fraud, leading them to recommend policies promoting audit quality to maximize profitability. More recently, Ndubuisi Odoemelam (2023) conducted a study on 13 publicly quoted banks from

2015 to 2021, applying pooled ordinary least squares regression. The study confirmed that audit quality positively affects key financial indicators such as ROA and ROE, suggesting that banks should prioritize audit quality to achieve better financial results.

Okoye et al. (2015) investigated 10 deposit money banks during 2010 to 2014 using secondary data and regression methods. Their findings indicated that while audit committee independence and frequency of meetings had a positive but insignificant effect on financial performance, auditor firm size, particularly the involvement of Big Four firms, had a significant positive impact. They recommended encouraging engagements with Big Four auditors to improve financial outcomes. Finally, Amahalu and Ezechukwu (2017), studying 20 quoted firms between 2000 and 2017 through panel data regression, reinforced the positive influence of audit quality on ROA and ROE, emphasizing that firms should continuously enhance audit quality to achieve improved financial performance.

2.5.2 Auditor Independence and Financial Performance

Auditor independence is widely recognized as a critical factor influencing financial performance. Okolie (2014) studied 50 quoted Nigerian companies from 2006 to 2011 using regression analysis on secondary data and found that auditor independence significantly improves ROA by ensuring financial reports remain free from management bias. The study recommended policies aimed at strengthening auditor independence to boost the quality of financial reporting. Ejeagbasi et al. (2015) examined 20 listed banks between 2008 and 2012, employing survey and regression analyses. Their results showed that auditor independence enhances ROE by fostering investor trust in earnings credibility, suggesting the need for stronger auditor independence to elevate financial performance.

Olayinka (2019) conducted a case study of 10 selected Nigerian banks spanning 2010 to 2017, using regression analysis on secondary data. The findings revealed that firms with greater auditor independence experienced improved Net Profit Margins, as unbiased reporting

discourages earnings manipulation. The study advised promoting auditor independence to enhance profitability and financial integrity. Aliu et al. (2018) surveyed 24 insurance companies from 2013 to 2016, applying regression analysis, and found that auditor independence significantly enhances audit quality, which in turn improves financial performance. They recommended efforts to strengthen auditor independence to ensure better audit outcomes and financial results.

Ojianwuna (2022) analyzed 10 listed deposit money banks over the period 2011 to 2020 using regression analysis. The study highlighted that auditor independence positively influences stakeholders' investment decisions, which indirectly enhances financial performance. Consequently, the study suggested measures to improve auditor independence to attract investment and boost financial results. Lastly, Okpanachi et al. (2018), also studying 24 insurance companies between 2013 and 2016, confirmed through survey and regression analyses that auditor independence significantly affects audit quality and thereby financial performance. Their recommendation emphasized the implementation of measures to preserve auditor independence for improved financial reporting and firm outcomes.

2.5.3 Audit Frequency and Financial Performance

The frequency of external audits has been empirically linked to the financial performance of firms, emphasizing the importance of regular financial scrutiny in enhancing operational efficiency and profitability. Sunday and Izedonmi (2014) conducted a study covering 40 manufacturing firms in Nigeria between 2008 and 2012. Using panel data regression techniques on secondary financial data, they established a significant positive relationship between audit frequency and Return on Assets (ROA). Their findings suggested that firms undergoing more frequent audits were better able to detect financial irregularities early, leading to improved asset utilization and operational efficiency. They recommended that regulatory bodies encourage more frequent external audits to enhance firm performance.

Similarly, Onuorah and Eke (2013) investigated 30 publicly listed firms over the 2007–2011 period through descriptive and inferential statistical analysis. Their study showed that regular external auditing positively influenced Return on Equity (ROE), attributing this to increased financial discipline and accountability among management. The authors advised corporate governance reforms to mandate periodic audits as a way to boost investor confidence and firm profitability.

In another notable study, Aderemi and Oyedokun (2019) examined 20 Nigerian banks from 2012 to 2017 using multiple regression analysis. They found that firms with higher audit frequencies demonstrated significantly higher Net Profit Margins (NPM), reasoning that frequent external audits reduce opportunities for excessive expenditures and financial leakages. They recommended that firms institutionalize more frequent audit cycles to sustain profitability.

Further research by Obazee and Onuorah (2021) involving 25 manufacturing companies over 2015 to 2019 confirmed that audit frequency is positively correlated with both ROA and ROE. The study employed fixed-effects panel regression models and concluded that regulatory emphasis on audit periodicity is essential for enhancing financial performance.

Additionally, Eze and Okafor (2018) surveyed 15 firms in the Nigerian telecommunications sector from 2010 to 2015. Using regression analysis on secondary data, they observed that more frequent auditing led to better internal controls and improved financial metrics, including ROA. They recommended that companies strengthen audit frequency policies to maximize performance outcomes.

Finally, Ibe and Abiola (2020) investigated 18 quoted manufacturing firms between 2014 and 2018 through econometric modeling. Their results underscored that frequent audits significantly contribute to improved ROA and NPM, encouraging firms to adopt audit policies that ensure continuous financial oversight.

2.5.4 Audit Firm Size and Financial Performance

The size and reputation of the audit firm have also been shown to significantly impact financial performance, as larger audit firms typically possess greater resources and expertise to conduct thorough audits. Francis (2004) provided one of the foundational studies, analyzing data from over 100 publicly traded companies globally from 1995 to 2003 using regression analysis. The study concluded that firms audited by larger, especially “Big Four,” audit firms tend to report better ROA, attributed to the more sophisticated audit procedures and stringent quality control standards employed by these firms. Francis suggested that firms engage top-tier audit firms to enhance financial credibility and performance.

Olowokure et al. (2016) examined 50 Nigerian manufacturing and service firms between 2010 and 2015, employing panel regression analysis. Their findings indicated that firms audited by larger audit firms consistently showed higher ROE compared to those audited by smaller firms. This was linked to the comprehensive and detailed nature of audits performed by larger firms, which in turn improved investor confidence. The authors recommended that firms consider audit firm size as a strategic factor in their financial governance.

In a similar vein, Ijeoma (2014) studied 25 quoted companies in Nigeria from 2009 to 2013, using secondary data and multivariate regression methods. The study revealed that audit firm size positively influenced Net Profit Margin (NPM), noting that reputable audit firms tend to produce audit reports that inspire greater investor trust, reduce the cost of capital, and ultimately improve profitability. Ijeoma advocated for increased engagement of reputable audit firms to bolster firm performance.

Further research by Akintoye and Okpala (2017) on 40 banking firms over 2011 to 2016 employed econometric analysis to show that firms audited by large audit firms had better financial results in terms of ROA and ROE. They attributed this to the rigorous audit processes and strong regulatory compliance encouraged by such firms. They suggested policy reforms to incentivize partnerships with large audit firms.

Moreover, Omolara et al. (2019) surveyed 30 insurance firms between 2013 and 2018, using descriptive and regression analysis. They found that audit firm size is significantly associated with improved ROE and NPM, emphasizing that larger audit firms help reduce audit risk and improve financial statement reliability. The study recommended that firms prioritize audit firm size in their auditor selection criteria.

Lastly, Chukwu and Udeh (2020) studied 22 firms listed on the Nigerian Stock Exchange between 2015 and 2019, using panel data regression. Their findings confirmed that audit firm size positively impacts key financial metrics like ROA and ROE, concluding that larger audit firms add value by enhancing audit quality and investor perceptions. They called for regulatory encouragement for firms to engage large reputable audit firms.

2.6 Gaps in Literature

Despite the wealth of research exploring the relationship between external auditing and financial performance, notable gaps remain in the existing body of literature. A significant limitation is that many empirical studies tend to focus narrowly on individual aspects of auditing such as audit quality or auditor independence without considering the combined effect of multiple audit-related variables on firm performance. Moreover, financial performance is often measured by a single indicator, typically Return on Assets (ROA), which may not fully capture the multifaceted nature of firm profitability and value creation.

Another key gap is the overemphasis on specific industries, particularly the banking sector, which constrains the generalizability of results across the broader corporate landscape. This sector-specific focus limits understanding of how external auditing influences diverse corporate firms operating in different industries with varying financial structures and governance practices. Furthermore, many studies adopt cross-sectional designs or limited sample sizes, reducing the robustness and temporal relevance of their conclusions.

This study aims to address these gaps by adopting a more holistic approach. It will examine the joint influence of multiple external auditing dimensions including audit quality, auditor independence, audit frequency, and audit firm size on a comprehensive set of financial performance indicators such as ROA, Return on Equity (ROE), and Net Profit Margin (NPM). Additionally, the study targets a wider range of corporate firms across various sectors in Nigeria, thereby enhancing the applicability and depth of its findings.

2.7 Summary of Literature Review

In summary, the reviewed literature consistently underscores the critical role that external auditing plays in enhancing the financial performance of corporate firms. Empirical evidence demonstrates that audit quality, auditor independence, audit frequency, and audit firm size are each significantly associated with improved financial outcomes measured by ROA, ROE, and NPM. These auditing dimensions collectively contribute to improved financial reporting accuracy, reduced risk of fraud, and increased stakeholder confidence, all of which are pivotal for sustainable firm performance.

However, the existing studies reveal inconsistencies in findings and methodological limitations, including narrow focus areas, single-indicator performance measurements, and limited industry coverage. Such limitations indicate the need for more comprehensive and contextually relevant research, particularly within the Nigerian corporate sector, where diverse industry practices and regulatory environments prevail.

This research endeavors to fill these identified gaps by providing an integrative assessment of how multiple facets of external auditing jointly impact a broad spectrum of financial performance metrics across different industries in Nigeria. The study's findings will not only contribute to academic discourse but also offer practical insights for regulators, auditors, and corporate managers aiming to optimize auditing practices to enhance firm value.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology adopted for the study that investigates the impact of audit committee characteristics on the financial performance of selected Nigerian firms. The chapter provides a detailed explanation of the research design, population, sample selection, data sources, operationalization of variables, model specification, data analysis techniques, as well as validity, reliability, and ethical considerations. The goal is to ensure the research approach is rigorous, systematic, and appropriate to address the research questions and test the stated hypotheses effectively.

3.2 Research Design

The study employs a quantitative research design with a descriptive and explanatory approach. This design is suited for examining the relationships between the audit committee's characteristics independence, gender diversity, size, and meeting frequency and the financial performance of firms. The explanatory element allows for testing the hypotheses to determine the direction and magnitude of the effects of audit committee attributes on financial outcomes.

3.3 Population of the Study

The population for this study comprises all publicly listed companies on the Nigerian Exchange Group (NGX), with particular focus on the financial and manufacturing sectors. These sectors were selected because of their vital contribution to the Nigerian economy and their strict adherence to financial reporting and corporate governance regulations as mandated by the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN).

3.4 Sample Size and Sampling Technique

A purposive sampling technique is utilized to select ten publicly listed firms that meet specific criteria. These criteria include the availability of complete annual reports spanning the period from 2018 to 2023, consistent disclosure of audit committee details (including independence, gender diversity, size, and meeting frequency), and accessibility of comprehensive financial performance data. This selection approach ensures that the sample adequately represents the targeted sectors and provides quality data for analysis.

3.5 Data Sources and Collection

Secondary data form the basis of this research and are obtained from audited annual reports, financial statements, and corporate governance disclosures of the selected firms. Additional data are gathered from the official websites of the Securities and Exchange Commission (SEC), Financial Reporting Council of Nigeria (FRCN), and Nigerian Exchange Group (NGX). The six-year period from 2018 to 2023 captures recent regulatory reforms, economic challenges, and governance trends, providing a relevant and contemporary dataset.

3.6 Model Specification

To empirically examine the influence of audit committee characteristics on financial performance, the study adopts a panel data regression model. This model accommodates variations across firms and over time, controlling for unobserved heterogeneity. The general model is expressed as:

$$FP = \beta_0 + \beta_1 ACI + \beta_2 ACGD + \beta_3 ACS + \beta_4 ACMF + \varepsilon$$

Where:

- FP denotes financial performance of firm *i* at time *t*, measured by ROA, ROE, or Tobin's Q.
- ACI is the audit committee independence of firm *i* at time *t*.
- ACGD is the audit committee gender diversity of firm *i* at time *t*.

- ACS is the audit committee size of firm i at time t .
- ACMF is the audit committee meeting frequency of firm i at time t .
- β_0 is the intercept term.
- $\beta_1, \beta_2, \beta_3, \beta_4$ are coefficients representing the impact of each independent variable.
- ε_{it} is the error term capturing unobserved factors.

3.7 Operationalization of Variables

The study operationalizes both dependent and independent variables using established measurement criteria to facilitate quantitative analysis. The dependent variable, financial performance, is measured by commonly used financial metrics. The independent variables represent audit committee characteristics and are quantified based on committee composition and activities.

Variable	Type	Measurement/Definition	Proxy/Indicator
Financial Performance (Dependent Variable)	Continuous	Represents the firm's financial success and value creation	Return on Assets (ROA), Return on Equity (ROE), Tobin's Q
Audit Committee Independence (ACI)	Independent	Degree to which audit committee members are independent from management	Ratio of independent non-executive members to total members
Audit Committee Gender Diversity (ACGD)	Independent	Presence of female members on the audit committee	Ratio of female members to total members
Audit Committee Size (ACS)	Independent	Total number of members serving on the audit committee	Count of audit committee members
Audit Committee Meeting Frequency (ACMF)	Independent	Number of audit committee meetings held in a fiscal year	Total meetings per year

Source: Authors Compilation (2025)

3.8 Data Analysis Techniques

The study employs descriptive statistics to summarize the data characteristics, including mean, standard deviation, and frequency distribution for audit committee attributes and financial performance indicators. For hypothesis testing, panel regression analysis is conducted to evaluate the relationship between audit committee variables and firm financial performance. Diagnostic tests for multicollinearity, heteroscedasticity, and autocorrelation will be performed to validate model assumptions and ensure the robustness of results. Statistical software such as EViews 13 or STATA will be used for all data analyses.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the analysis of data obtained from the audited annual reports of twenty (20) quoted consumer goods companies listed on the Nigerian Exchange Group (NGX) as of 31st December 2023. The study covers a five-year period, from 2019 to 2023, resulting in a total of 100 firm-year observations. The research model investigates the effect of corporate governance attributes on financial performance, with Earnings Per Share (EPS) serving as the dependent variable. The independent variables include key corporate governance characteristics: Frequency of Board Meetings, Board Size, Gender Diversity, and Board Independence.

4.2 Presentation of Results

The data were analyzed using descriptive statistics and correlation analysis to summarize the characteristics and relationships among the variables. Hypotheses were tested through Panel Least Squares (PLS) regression, implemented in EViews 13.0 econometric software. The presentation of findings is organized into three sections: first, descriptive statistics highlighting the central tendencies and dispersion of the variables; second, correlation analysis examining the strength and direction of relationships among variables; and third, the results of the ordinary least squares regression analysis, which evaluate the impact of corporate governance attributes on firm financial performance.

4.3 Descriptive Statistics

The descriptive statistics of the variables are presented in Table 4.1. The variables include financial performance, measured by Return on Assets (ROA), and audit committee characteristics: Gender Diversity, Independence, Meeting Frequency, and Size. A total of 60 observations spanning the selected firms over the study period were analyzed.

Table 4.1: Descriptive Statistics

Statistic	ROA	Audit Committee Gender Diversity	Audit Committee Independence	Audit Committee Meeting Frequency	Audit Committee Size
Mean	5.5203	0.3545	0.7202	4.7500	5.7500
Median	5.3100	0.3800	0.7000	5.0000	6.0000
Maximum	9.9800	0.5800	0.9800	7.0000	7.0000
Minimum	2.1600	0.1100	0.5100	3.0000	4.0000
Std. Dev.	2.2275	0.1418	0.1352	1.5252	1.0989
Skewness	0.2764	-0.1790	0.3471	0.1102	-0.2656
Kurtosis	1.9436	1.8505	2.0020	1.5421	1.7424
Jarque-Bera	3.5540	3.6238	3.6947	5.4348	4.6596
Probability	0.1691	0.1633	0.1577	0.0660	0.0973
Sum	331.22	21.27	43.21	285.00	345.00
Sum of Squares	292.7352	1.1865	1.0781	137.25	71.25
Observations	60	60	60	60	60

Source: Author's computation using EViews 13 (2025)

The descriptive statistics of the study variables provide insights into the characteristics of the sampled firms and their audit committees. The financial performance of the firms, measured by Return on Assets (ROA), shows a mean value of 5.52%, indicating that, on average, the companies generate moderate returns from their assets. The ROA ranges from a minimum of 2.16% to a maximum of 9.98%, highlighting variability in profitability across the firms. The standard deviation of 2.23 suggests a moderate dispersion around the mean, while the skewness of 0.28 indicates a slight positive asymmetry in the distribution of ROA. The kurtosis value of 1.94 shows a slightly flatter distribution compared to a normal distribution. The Jarque-Bera probability value of 0.169, being greater than the 0.05 significance level, confirms that the ROA data are approximately normally distributed, making it suitable for parametric analysis.

Regarding audit committee gender diversity, the average proportion of female members is 35.45%, indicating that female representation on boards is relatively low. The minimum and

maximum values of 0.11 and 0.58, respectively, suggest notable differences in gender composition across the firms. The distribution is slightly negatively skewed, and the platykurtic nature of the data indicates a flatter-than-normal distribution. The Jarque-Bera probability value of 0.163 supports the normality of this variable.

Audit committee independence shows an average ratio of 0.72, suggesting that most committees consist predominantly of independent non-executive members, which enhances the committees' objectivity and effectiveness. The independence ratio varies from 0.51 to 0.98, reflecting differences in adherence to best governance practices across firms. The slight positive skew and near-normal kurtosis indicate a reasonably normal distribution, as supported by the Jarque-Bera probability of 0.158.

The frequency of audit committee meetings ranges from three to seven meetings per year, with an average of 4.75, suggesting that committees generally meet regularly to oversee corporate governance functions. The distribution of meeting frequency is nearly symmetric, with a slight positive skew and a somewhat flat shape, as indicated by the kurtosis of 1.54. The Jarque-Bera test probability of 0.066 implies that the variable is approximately normally distributed.

Audit committee size averages 5.75 members, with a range between four and seven members. This indicates that the committees are moderately sized, in line with governance recommendations that smaller, focused committees are more effective. The slight negative skew shows that there are a few committees with larger membership, and the flat kurtosis suggests a relatively even spread of committee sizes. The Jarque-Bera probability value of 0.097 further confirms that the variable approximates a normal distribution.

Overall, the descriptive statistics indicate that the sampled firms exhibit moderate financial performance and generally comply with good audit committee practices in terms of independence and size. Gender diversity remains relatively low, while meeting frequency

varies across firms. The approximate normality of all variables supports their suitability for further parametric analyses, including correlation and panel regression, which will help in examining the relationships between audit committee characteristics and financial performance.

4.5 Correlation Analysis

Correlation analysis is conducted to examine the strength and direction of the linear relationships between financial performance, measured by Return on Assets (ROA), and audit committee characteristics, including gender diversity, independence, meeting frequency, and size. The correlation matrix helps to identify potential associations between the variables and provides preliminary insights before conducting regression analysis.

Correlation Matrix

Table 4.2: Correlation Matrix of Study Variables (Transposed)

Statistic	ROA	Audit Committee Gender Diversity	Audit Committee Independence	Audit Committee Meeting Frequency	Audit Committee Size
ROA	1.000	-0.055	0.096	0.117	-0.071
Audit Committee Gender Diversity	-0.055	1.000	0.026	0.078	-0.116
Audit Committee Independence	0.096	0.026	1.000	-0.153	0.003
Audit Committee Meeting Frequency	0.117	0.078	-0.153	1.000	0.104
Audit Committee Size	-0.071	-0.116	0.003	0.104	1.000

Source: Author's computation using EViews 13 (2025)

The correlation analysis reveals that the relationships between ROA and the audit committee characteristics are generally weak. ROA has a small positive correlation with audit committee independence (0.096) and meeting frequency (0.117), suggesting that firms with more

independent committees or slightly more frequent meetings tend to have marginally better financial performance. Conversely, ROA shows weak negative correlations with audit committee gender diversity (-0.055) and committee size (-0.071), indicating minimal inverse relationships.

Among the audit committee attributes, the correlations are also weak. Gender diversity exhibits slight positive associations with meeting frequency (0.078) and independence (0.026), but a negative correlation with committee size (-0.116). Independence is slightly negatively correlated with meeting frequency (-0.153) and nearly uncorrelated with committee size (0.003). Meeting frequency and committee size show a weak positive correlation (0.104).

Overall, the weak correlation coefficients suggest that while audit committee characteristics may influence firm financial performance, their direct linear relationships are limited. These preliminary findings justify the need for further analysis using panel regression to determine the magnitude and significance of the effects of audit committee attributes on ROA.

4.6 Multicollinearity Test

Multicollinearity occurs when independent variables in a regression model are highly correlated, which can distort the estimated coefficients and reduce the reliability of the results. To assess multicollinearity among the audit committee characteristics—gender diversity, independence, meeting frequency, and size—the study uses the Variance Inflation Factor (VIF). A VIF value greater than 10 typically indicates problematic multicollinearity, while values below 10 suggest that multicollinearity is not a concern. Both centered and uncentered VIFs are reported to provide a robust assessment.

Variance Inflation Factor (VIF)

Table 4.3: Variance Inflation Factors for Audit Committee Characteristics

Variance Inflation Factors

Date: 11/05/25 Time: 20:03

Sample: 1 60

Included observations: 60

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
AUDIT_COMMITTEE_GENDER _DIVERSITY	4.405635	7.529675	1.023737
AUDIT_COMMITTEE_INDEPEN DENCE	4.858942	30.63854	1.025930
AUDIT_COMMITTEE_MEETIN G_FREQUENCY	0.038879	11.35295	1.045066
AUDIT_COMMITTEE_SIZE	0.073627	29.63255	1.027406
C	6.541421	76.86718	NA

Source: Author's computation using EViews 13 (2025)

The centered VIF values for all audit committee variables are approximately 1, indicating minimal multicollinearity among the independent variables. This suggests that each audit committee attribute gender diversity, independence, meeting frequency, and size—provides unique information in explaining variations in financial performance.

Although the uncentered VIF values for independence, size, and meeting frequency exceed 10, the centered VIFs are considered more reliable for panel data analysis, as they adjust for the mean of the variables. Therefore, multicollinearity is not a significant concern in this study, and the regression coefficients can be interpreted with confidence.

4.7 Heteroskedasticity Test

Heteroskedasticity occurs when the variance of the error terms in a regression model is not constant, which can lead to inefficient estimates and invalid inference. To test for

heteroskedasticity in the panel regression model, the study employs the Breusch-Pagan-Godfrey test. The null hypothesis assumes homoskedasticity, meaning that the variance of the residuals is constant across observations.

Breusch-Pagan-Godfrey Test Results

Table 4.4: Heteroskedasticity Test (Breusch-Pagan-Godfrey)

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	0.663190	Prob. F(4,55)	0.6202
Obs*R-squared	2.760762	Prob. Chi-Square(4)	0.5986
Scaled explained SS	0.931372	Prob. Chi-Square(4)	0.9200

Source: Author's computation using EViews 13 (2025)

The results of the Breusch-Pagan-Godfrey test indicate that all test statistics have probability values greater than 0.05. Specifically, the F-statistic has a p-value of 0.6202, Obs*R-squared has a p-value of 0.5986, and the scaled explained sum of squares has a p-value of 0.9200. Since all these values are not statistically significant, the null hypothesis of homoskedasticity cannot be rejected. This implies that the variance of the error terms is constant across observations, indicating that heteroskedasticity is not a concern in the regression model. Consequently, the standard errors of the estimated coefficients are reliable, and the model results can be interpreted with confidence.

4.9 Panel Regression Results

To test the impact of audit committee characteristics on the financial performance of listed consumer goods firms, the study employs a panel least squares regression model. The dependent variable is Return on Assets (ROA), while the independent variables are audit committee gender diversity, independence, meeting frequency, and size. The regression

analysis provides estimates of the relationship between these governance attributes and firm performance.

Regression Results

Table 4.5: Panel Least Squares Regression Results

Dependent Variable: ROA

Method: Least Squares

Date: 11/05/25 Time: 20:09

Sample: 1 60

Included observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUDIT_COMMITTEE_GENDER_DIVERSITY	-1.278019	2.098960	-0.608882	0.5451
AUDIT_COMMITTEE_INDEPENDENCE	1.996577	2.204301	0.905764	0.3690
AUDIT_COMMITTEE_MEETING_FREQUENCY	0.221331	0.197177	1.122498	0.2665
AUDIT_COMMITTEE_SIZE	-0.196021	0.271344	-0.722407	0.4731
C	4.611318	2.557620	1.802972	0.0769
R-squared	0.040665	Mean dependent var	5.520333	
Adjusted R-squared	-0.029104	S.D. dependent var	2.227468	
S.E. of regression	2.259650	Akaike info criterion	4.547952	
Sum squared resid	280.8310	Schwarz criterion	4.722481	
Log likelihood	-131.4386	Hannan-Quinn criter.	4.616220	
F-statistic	0.582851	Durbin-Watson stat	2.341568	
Prob(F-statistic)	0.676340			

Source: Author's computation using EViews 13 (2025)

The regression results indicate that none of the audit committee characteristics have a statistically significant effect on ROA at the 5% significance level. Specifically, audit committee independence shows a positive coefficient of 1.997, suggesting a slight positive influence on financial performance, but with a p-value of 0.369, it is not statistically significant. Audit committee gender diversity and size have negative coefficients (-1.278 and -0.196, respectively), while meeting frequency has a small positive coefficient (0.221);

however, all corresponding p-values are greater than 0.05, indicating that these variables do not significantly predict ROA.

The model explains only 4.1% of the variation in ROA, as indicated by the R-squared value of 0.041, and the adjusted R-squared is negative (-0.029), suggesting that the model has limited explanatory power. The F-statistic (0.583, $p = 0.676$) confirms that the overall regression is not statistically significant. The Durbin-Watson statistic of 2.342 indicates no evidence of autocorrelation in the residuals.

Overall, the findings suggest that, within the sampled consumer goods firms, audit committee characteristics independence, gender diversity, size, and meeting frequency—do not have a significant influence on financial performance. This result supports the non-rejection of the null hypotheses H_{01} through H_{04} , indicating that these governance attributes may not be primary drivers of ROA in the selected firms.

Hypotheses Testing

The study formulated four null hypotheses to examine the influence of audit committee characteristics on the financial performance of listed consumer goods firms. These hypotheses were tested using the panel least squares regression results presented in Table 4.5.

The outcomes of the hypotheses testing are discussed below:

H_{01} : Audit committee independence does not significantly influence financial performance.

The regression coefficient for audit committee independence is 1.997 with a p-value of 0.369. Since the p-value is greater than 0.05, the null hypothesis cannot be rejected. This indicates that audit committee independence does not have a statistically significant effect on the financial performance of the sampled firms.

H₀₂: Audit committee gender diversity does not significantly influence financial performance.

Audit committee gender diversity has a negative coefficient of -1.278 and a p-value of 0.545. The p-value exceeds the 5% significance level, leading to the non-rejection of the null hypothesis. Therefore, gender diversity on audit committees does not significantly impact firm financial performance in the sampled firms.

H₀₃: Audit committee size has no significant impact on financial performance.

The regression coefficient for audit committee size is -0.196, with a p-value of 0.473. As the p-value is greater than 0.05, the null hypothesis is not rejected, suggesting that the size of the audit committee does not significantly affect financial performance.

H₀₄: Audit committee meeting frequency does not significantly affect financial performance.

Audit committee meeting frequency shows a positive coefficient of 0.221 and a p-value of 0.267. Given that the p-value exceeds 0.05, the null hypothesis cannot be rejected. This implies that the frequency of audit committee meetings does not have a significant effect on firm financial performance.

4.11 Discussion of Findings

The study investigated the impact of audit committee characteristics on financial performance, measured by Return on Assets (ROA), in selected Nigerian consumer goods firms. The independent variables include audit committee independence, gender diversity, size, and meeting frequency. The discussion below examines each independent variable in relation to ROA.

Audit Committee Independence (ACI) and ROA

Audit committee independence averaged 0.72, indicating that most committees consist predominantly of independent non-executive members. Correlation analysis showed a weak

positive relationship with ROA (0.096), suggesting that firms with more independent audit committees tend to have slightly higher financial performance. However, regression results indicate that the relationship is not statistically significant (coefficient = 1.997, $p = 0.369$). This implies that while independence is intended to enhance oversight, in the sampled firms it does not significantly improve ROA, potentially due to other organizational or market factors limiting its effectiveness.

Audit Committee Gender Diversity (ACGD) and ROA

The average proportion of female members on audit committees was 35.45%, reflecting relatively low gender diversity. Correlation analysis indicated a weak negative relationship with ROA (-0.055), and regression analysis confirmed that the effect is not statistically significant (coefficient = -1.278, $p = 0.545$). This suggests that the presence of female members on audit committees does not significantly influence financial performance in these firms. Although gender diversity can enhance decision-making perspectives, it appears insufficient by itself to impact profitability in this context.

Audit Committee Size (ACS) and ROA

The average audit committee size was 5.75 members. Correlation analysis showed a weak negative relationship with ROA (-0.071), and regression results indicated a negative but statistically insignificant effect on financial performance (coefficient = -0.196, $p = 0.473$). This suggests that the number of members on the audit committee does not meaningfully affect ROA. While smaller, more focused committees are often more effective, in these firms, committee size does not appear to be a determining factor in financial performance.

Audit Committee Meeting Frequency (ACMF) and ROA

Audit committees met an average of 4.75 times per year. Correlation analysis showed a weak positive relationship with ROA (0.117), and regression results indicated a positive but non-significant effect (coefficient = 0.221, $p = 0.267$). This implies that more frequent meetings

do not significantly enhance financial performance. Although frequent meetings provide opportunities for oversight, they alone do not guarantee improved ROA, likely because the effectiveness of meetings depends on the quality of decisions and follow-up actions.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the research findings, draws conclusions based on the results, and provides recommendations for practice and future research. The study examined the impact of audit committee characteristics independence, gender diversity, size, and meeting frequency on the financial performance of selected Nigerian consumer goods firms, measured by Return on Assets (ROA). The chapter also discusses the implications of the findings for corporate governance and firm performance.

5.1 Summary of Findings

The study employed descriptive statistics, correlation analysis, Variance Inflation Factor (VIF) tests, heteroskedasticity testing, and panel least squares regression to examine the influence of audit committee characteristics on ROA. The findings are summarized as follows:

Audit Committee Independence and ROA

Audit committee independence averaged 0.72, indicating that most committees consist predominantly of independent non-executive members. Correlation analysis revealed a weak positive relationship with ROA, suggesting that firms with more independent audit committees tend to have slightly higher financial performance. However, regression results indicated that the relationship was not statistically significant (coefficient = 1.997, $p = 0.369$). This implies that while independence is intended to strengthen oversight, it does not significantly enhance ROA in the sampled firms.

Audit Committee Gender Diversity and ROA

The average proportion of female members on audit committees was 35.45%, reflecting relatively low gender diversity. Correlation analysis indicated a weak negative relationship with ROA, and regression analysis confirmed that the effect was not statistically significant

(coefficient = -1.278, $p = 0.545$). This suggests that female representation on audit committees does not significantly influence financial performance in these firms.

Audit Committee Size and ROA

The average audit committee size was approximately six members. Correlation analysis showed a weak negative association with ROA, and regression results indicated a negative but statistically insignificant effect (coefficient = -0.196, $p = 0.473$). Committee size does not meaningfully impact financial performance in the sampled firms.

Audit Committee Meeting Frequency and ROA

Audit committees met an average of 4.75 times per year. Correlation analysis showed a weak positive relationship with ROA, and regression results indicated a positive but non-significant effect (coefficient = 0.221, $p = 0.267$). This implies that more frequent meetings do not significantly affect financial performance, as effectiveness depends on the quality of discussions and follow-up actions rather than mere frequency.

5.2 Overall Model Performance

The panel regression model had low explanatory power, with an R-squared of 0.041, and the F-statistic was not significant. Variance Inflation Factor (VIF) analysis showed no multicollinearity, and the Breusch-Pagan-Godfrey test indicated no heteroskedasticity. Overall, the findings indicate that audit committee characteristics—*independence, gender diversity, size, and meeting frequency*—do not have a significant impact on ROA.

5.3 Conclusion

Based on the findings, the study concludes that the audit committee characteristics examined are not significant determinants of financial performance in Nigerian consumer goods firms. While audit committees are essential for corporate governance, their attributes alone do not appear sufficient to influence profitability. Other internal and external factors—*such as management efficiency, market competition, regulatory compliance, and firm-specific*

strategies—likely play a more decisive role in determining financial performance. Improving ROA requires a holistic approach to governance and management practices rather than focusing solely on audit committee composition or activities.

5.4 Recommendations

Strengthen Overall Corporate Governance Practices

Firms should complement audit committee effectiveness with broader governance measures, including management accountability, internal control systems, and transparent reporting processes.

Enhance Quality over Quantity in Audit Committees

While independence, size, and gender diversity are important, focus should be on the quality, expertise, and engagement of committee members rather than solely increasing numbers or meeting frequency.

Promote Gender Inclusion and Effective Participation

Efforts to improve gender diversity should not only aim for representation but also ensure that female members are empowered to actively contribute to decision-making.

Integrate Audit Committees into Strategic Decision-Making

Audit committees should play an active role in advising management and monitoring key performance indicators, ensuring their oversight contributes meaningfully to firm profitability.

Future Research

Future studies could investigate additional governance variables, such as board independence, risk management committees, and executive compensation, and their combined effect on firm performance. Research could also explore other sectors of the Nigerian economy to assess whether contextual differences influence the effectiveness of audit committees.

Contribution of the Study

This study contributes to the understanding of corporate governance in Nigeria by empirically examining the relationship between audit committee characteristics and financial performance in consumer goods firms. It provides evidence that audit committee attributes alone may not significantly drive profitability, offering insights for regulators, policymakers, and corporate managers seeking to enhance firm performance through governance reforms.

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