Examining the Relationship between Audit Committee Attributes and Financial Performance of Listed Manufacturing Firms in Nigeria

**Abstract**

*This study investigated the relationship between the characteristics of audit committees and financial performance of Nigerian manufacturing firms. Data was gathered from the annual financial statements of the chosen manufacturing enterprises and statistics from the Nigerian Exchange Group's (NGX) fact book covering the ten-year period from 2014 to 2023; the study population consisted of all production-based companies listed on the Nigerian Exchange Group as of December 31, 2023. The research used both descriptive and inferential analytical methods, with Pearson's correlation analysis and a panel estimation technique acting as the inferential analysis method. A Hausman test was conducted to identify the most appropriate panel estimation technique for the study. According to the regression analysis, the relationship between audit committee independence and the financial performance of Nigerian firms is weak and statistically insignificant. The regression coefficient for audit committee independence within the fixed effect analysis was -0.0928, with a t-statistic of -0.4180 and a p-value of 0.6769 (p>0.05). Similar findings were made by the same analysis, which showed a negative and statistically insignificant association between audit committee meetings and return on equity (regression coefficient = -0.3218, t-statistic = -0.6311, p-value = 0.5296, p > 0.05). A negative and insignificant link with return on equity was further demonstrated by the fixed effect analysis's regression coefficient for audit committee size, which was -0.8195, t-statistic of -1.0200, and p-value of 0.3105 (p>0.05). The study concludes that the companies' return on equity is not significantly impacted by the attributes of their audit committees. The study recommends, among others, that manufacturing companies keep their audit committees independent. This is because accurate and reliable financial statements are necessary to attracts investors, keep stakeholders' trust, and facilitate well-informed decision-making.*

**Keywords: Audit Committee Attributes, Production Based firms, Audit Committee Size, Return on Equity, Financial Performance**

* 1. **Introduction**

The audit committee plays a vital role in creating checks and balances within the internal control system by collaborating with both internal and external auditors to confirm that management follows established guidelines (Beasley, 2019). The primary roles of the audit committee include enhancing the board of directors' oversight capacity, elevating the accuracy of financial reporting, boosting auditor independence, and refining the decision-making process of the board (Farouk, 2019). Moreover, the external auditor fortifies the audit committee's oversight by providing an independent evaluation of the company's annual financial statements and reports. The auditor's assessment of the financial documents offers reasonable assurance concerning objectivity, bias, and any significant misstatements that may misguide users of the financial information (Olayinka, 2019).

The financial performance of an organization is a crucial means of evaluating its health and determining its capacity to fulfill financial commitments to all relevant parties. Furthermore, it serves as a signal for potential dividend distributions. Companies have a duty to prioritize their core goal, which is the enhancement of wealth, while also considering the interests of stakeholders who are invested in the organization's fiscal stability (Farouk, 2019). Financial statements aim to deliver valuable and trustworthy financial data for various stakeholders and users to facilitate informed decision-making. High-quality financial reporting emerges from an effective corporate governance framework that supports creditors and investors in making investment choices with reduced risk (Olayinka, 2019).

**1.2       Statement of the problem**

The connection between the features of audit committees and their financial outcomes has been thoroughly examined in different settings, sectors, and geographical areas. These examinations have produced mixed outcomes, and the variations in results may stem from the analytical methods applied, the substitutes utilized for measuring variables, and the sources of information, among other factors.

Investigations in Egypt and Nigeria reveal that committees with gender diversity are linked to enhanced financial performance, as having varied perspectives can improve decision-making and supervision (Ahmed et al., 2024; Okeke, 2023). For instance, research on insurance companies in Nigeria discovered that gender diversity significantly and positively influences financial outcomes (Okeke, 2023). Nevertheless, the effects of gender diversity are not uniformly applicable. An analysis within Nigeria's industrial goods sector indicated that gender diversity had minimal impact on financial performance, implying that its effect may differ across industries or contexts (Abu, 2024).

Research conducted in various locations, including Africa and Bangladesh, shows that audit committees with independence correlate with enhanced financial performance indicators like Return on Assets (ROA) and Return on Equity (ROE) (Karaye et al., 2024; Karim et al., 2024). When a committee operates independently, it can impartially supervise financial disclosures and internal procedures without external pressures from management or other interested parties. Nevertheless, certain investigations, including those from Nigeria and Jordan, suggest that independence does not automatically result in positive effects. For example, within the Nigerian insurance industry, the independence of the audit committee was observed to have a negative and non-significant relationship with financial performance (Okeke, 2023).

Findings from burgeoning markets, such as Pakistan and Bangladesh, suggest that more extensive audit committees tend to be associated with superior financial results due to their varied expertise and monitoring skills (Rafique & Mamun, 2014; Karim et al., 2024). In Bangladesh specifically, larger committees were found to correlate with improved market value and enhanced strategic oversight (Karim et al., 2024). Moreover, other research conducted in Nigeria and Indonesia revealed that the size of the audit committee does not have a noteworthy impact on financial outcomes (Osi et al., 2024; Bahari, 2024). In some instances, larger committees may lead to inefficiencies or difficulties in decision-making, potentially offsetting their advantages.

Research conducted in Nigeria and Indonesia indicates that the frequency of meetings is positively linked to enhanced financial outcomes since they facilitate consistent monitoring and prompt resolution of issues (Adewumi & Osunwole, 2025; Maghriby et al., 2024). For example, in the manufacturing sector of Nigeria, a higher frequency of meetings corresponded with increases in Return on Capital Employed (ROCE) and Profit before Interest and Tax (Adewumi & Osunwole, 2025). On the other hand, having too many meetings can lead to negative effects. Studies from Bangladesh reveal that a high frequency of meetings might result in inefficiency instead of better oversight, which can potentially hurt financial performance (Karim et al., 2024). This underscores the importance of maintaining a balanced strategy regarding meeting frequency. Thus, this study aims to investigate how audit committee attributes affect Nigerian manufacturing companies' financial performance. Specifically, this study aims to

* Examine how audit independence impacts the return on equity of publicly listed manufacturing firms in Nigeria.
* Investigate how audit committee size influences the return on equity of listed manufacturing organizations in Nigeria.
* Assess how the frequency of audit committee meetings affects the return on equity of production-based companies.

**2.1 Financial Performance**

The financial performance of an organization over a specific timeframe serves as an overall indicator of its fiscal wellness (Bamidele et al., 2024). This metric is utilized to assess a company's financial condition throughout a defined duration and can facilitate comparisons with similar enterprises within the same sector or across different industries in general. Financial performance in a more extensive context denotes the extent to which financial goals have been achieved or are being met (Nuhu, et al., 2017). This research considers financial performance as a means to evaluate the outcomes of a company’s strategies and operations in monetary terms. Consequently, this paper centered on both accounting and market-oriented indicators of financial performance, employing return on equity (ROE) to analyze the audit committee on the equity returns of publicly listed production-focused firms in Nigeria.

**2.2 Audit committee in manufacturing companies**

CAMA 1990 posited that the audit committee consists of shareholders and non-executive directors. This group facilitates communication between the board of directors and the external auditor, while also bridging the gap between management and the external auditor. Audit Committees represent a significant advancement in corporate governance and are anticipated to play a crucial role in this area (Modun, Ogwoke & Onyeanu, 2020). The committee members ought to embody traits such as honesty, commitment, and a deep comprehension of the company's operations.

**2.3 Theoretical Review**

Numerous theories exist that delineate the connection between audit committees and financial performance within the accounting literature. This research is grounded in agency theory, which is pertinent in addressing conflicts of interest that can arise between management and stakeholders. Agency theory explores the scenario where one party (the principal) entrusts tasks to another (the agent), who is responsible for executing them. This theory endorses the allocation of responsibilities and the concentration of authority within the board of directors, as well as the application of incentive-based compensation (Salleh, Stewart & Manson, 2006). The members of the board oversee agents through communication, reporting, systematic reviews, auditing, and by enforcing various codes and regulations.

**2.4 Review of Empirical Evidence**

In their research, Adewumi and Osunwole (2025) analyze the function of audit committees in boosting the financial performance of manufacturing firms listed in Nigeria, discovering positive associations between the frequency of meetings, the size of committees, and enhanced financial outcomes, while the findings on gender diversity were mixed.

Karaye et al. (2024) explored the relationship between the characteristics of board audit committees and financial performance in Africa by examining publicly listed companies in the four largest financial markets on the continent. They employed correlation analysis, Generalized Least Squares (GLS) with Fixed and Random Effect Models, and Generalized Method of Moments (GMM) for data evaluation. The results show that the characteristics of board audit committees and many indicators of a company's financial success are positively and significantly correlated. This information is valuable for regulators in corporate governance aiming to refine governance protocols and mitigate corporate insolvencies in Africa.

Karim et al. (2024) investigated how audit committee attributes affect sustainable performance in Bangladeshi commercial banks, highlighting that larger, independent committees that meet regularly contribute to improved financial and market performance, thereby supporting sustainable development in growing economies.

Okeke (2023) in his research regarding the traits of audit committees and the financial outcomes of insurance companies in Nigeria discovers that the diversity of gender within audit committees positively influences financial performance in a statistically notable way, whereas the frequency of audit committee meetings and their independence show negative correlations that lack significance.

Olaoye and Bamidele (2023) investigated how the attributes of audit committees affect the quality of financial reporting among listed deposit money banks in Nigeria. This research specifically focused on the influence of audit committee size, activity level, and diversity on the financial reporting standards of such banks. Data was collected from the financial statements of ten chosen deposit money banks spanning the years 2013 to 2022, analyzed using correlation analysis and panel regression methods (including pooled OLS, fixed effect, and random effect with the Hausman test). The findings based on the most reliable random effect indicated a coefficient and a probability of -.023357 and 0.595 (p > 0.05) for audit committee size, suggesting an insignificant adverse effect on financial reporting quality. Additionally, a coefficient and probability of .0517368 and 0.047 (p < 0.05) were found for audit committee activity, indicating a significant positive influence on the quality of financial reporting due to audit committee activity and diversity.

Rafique & Mamun (2015) studied the influence of audit committee attributes on corporate performance in Pakistan. Their research expanded on previous studies highlighting the significance of director attributes (executive, non-executive, and independent), introducing various unexplored yet vital characteristics found within audit committees, and proposed a hypothesis to examine how these attributes function in the context of an emerging economy. Focusing on agency and stewardship theories, they analyzed data from firms listed on the Karachi Stock Exchange in 2013. The results revealed that organizations with more than three members on their audit committee and a non-executive chairman for the audit committee experience enhanced economic value-added (EVA).

Osi et al. (2024) evaluate how audit committee characteristics influence the financial performance of oil and gas companies listed in Nigeria, revealing that financial expertise stands out as the sole significant characteristic, while both independence and frequency of meetings demonstrate insignificant positive effects, and size as well as gender diversity reflect insignificant negative effects.

Bahari (2024) investigates how board size and audit committee traits affect financial performance in Indonesian foreign exchange banks, discovering non-significant negative relationships between board size and both ROA and ROE, alongside significant negative correlations between the expertise of audit committees and ROE.

Musah et al. (2022) looked into the influence of board traits, audit committee traits, and gender diversity on audit fees for publicly listed companies in Ghana. Utilizing panel regression methods, the research indicated a low level of female representation on boards and in other senior positions among these firms. Regression analysis indicated a negative correlation between female representation on boards and audit fees. The conclusions drawn from this study were specific to Ghana. Additionally, this new research shifts focus towards gender diversity and financial performance, differentiating it from the prior study.

Onmonya and Ebire (2023) investigated how specific audit features influence the performance of publicly traded conglomerates in Nigeria between 2015 and 2021. The audit features considered included the audit committee size, the number of meetings held, and the audit committee independence, while corporate performance was measured through return on assets. This research concludes that an increase in the number of audit committee meetings does not enhance the performance of the companies.

**3.1 Methodology**

This study examined the impact of audit committee features on the financial performance of Nigerian production-based using an ex post facto research framework. Data from the Nigerian Exchange Group's (NGX) fact book covering the ten-year period from 2014 to 2023 was combined with information from the annual reports and accounts of the selected industrial companies. All production-oriented businesses listed on the Nigerian Exchange Group (NGX) as of December 31, 2023, included the research population. In all, 41 production-based companies are listed on the Nigerian Exchange Group (NGX). These entities are divided into three categories: conglomerates, consumer products, and industrial goods companies. For this research, a purposive sampling method was employed, selecting ten (10) companies that share similar characteristics and traits within the population.

**3.2 Model Specifications**

The research modified the framework employed by Adamu and Ugwudioha, 2025, regarding the impact of audit committee attributes on the financial success of publicly traded industrial goods companies in Nigeria. The framework was defined as;

*ROAit = αit + β1ACSit + β2ACIit + β3ACMit + β4ACFEit + β5ACGDit + β6FSit + εit*

It showed how the audit committee's size, degree of independence, frequency of meetings, financial knowledge, and gender diversity on the board all affected the financial performance of the audit committee. Financial outcomes were simulated via return on assets. This research, however, adapted the framework by utilizing return on equity as a measure for financial outcomes, while the audit committee independence, size, and the number of meetings were utilized as indicators of the audit committee's features. Additionally, the age of the firm was included as a control factor. Therefore, the framework for this research is defined as:

**ROE = *f* (ACI, ACZ, ACM, FA)**

The regression model was specified as:

***ROEit = β0 + β1ACIit + β2ACZt + β3ACMit+ β4FAit + μit ……………………………………3.2***

Where;

ROE = Return on Equity

ACI = Audit Committee Independence

ACZ = Audit Committee Size

ACM = Audit Committee Meeting

FA = Firms’ Age

μ = Error term

β0 to β3 = Parameter estimates.

**4.0 Data Analysis and Discussion of Result**

The research utilized both descriptive and inferential analysis methods. The descriptive statistics that were applied included measures such as mean, median, standard deviation, highest and lowest values, skewness, kurtosis, and the Jarque-Bera test. For inferential analysis, the approach taken was Pearson's correlation analysis along with a panel estimation technique. A Hausman test was performed to determine the most suitable panel estimation method for the research.

**Table 1: Descriptive Analysis**



***Source: Author’s Computation, (Eviews 12)***

The descriptive statistics shows that ROE is Leptokurtic and skewed to the right, according to the coefficients of 4.2661 and 1.030 for kurtosis and skewness respectively, which also shows that the firms' financial performance was continuously positive over the years under review. ACI is platykurtic and skewed to the right with the coefficients of 3.5279 and 0.7587 for Kurtosis and skewness respectively. The information on ACM’s kurtosis and skewness coefficients, which are 2.1912 and 0.6125, respectively, show that the data is platykurtic and skewed to the right. The ACZ’s Kurtosis and skewness coefficients, which are 1.85 and -2.15, respectively, show that it is platykurtic and skewed to the left. The Jaque Bera p-value of ROE, ACI, ACM of 0.0000, 0.0046, and 0.0112 respectively suggests that the data is not normally distributed and deviates significantly from a normal distribution while ACZ and FA are normally distributed with a Jaque Bera p-value of 0.0641 and 0.8311 respectively.

**Table 2: Correlation Matrix**



***Source: Author’s Computation, (Eviews 12)***

The correlation coefficient from Pearson is depicted in table 2. An examination of the table's findings revealed a negative and not statistically significant relationship between the ACI of the firms listed and their ROE. This conclusion was supported by a correlation coefficient of -0.1514 for ACI in relation to ROE. Consequently, a 1% increase in the independence of the audit committee could potentially lead to a -15% effect on the financial performance of the firm. Furthermore, the findings also indicated a negative relationship between the ROE of the listed firms and the ACM. This assertion is based on the negative correlation coefficient of -0.0462. Therefore, having more frequent meetings might adversely affect performance of the firm by -4.6%. Additionally, the findings identified a correlation between ACZ and ROE among the listed firms. This conclusion was drawn from a positive correlation coefficient of 0.1116 associated with both ROE and ACZ. Hence, a 1% increase in the size of the audit committee could result in an 11% improvement in the financial performance of the firm.

**4.2 Hausman Test**

**Table 3: Hausman Test**

****

***Source: Author’s Computation, (Eviews 12)***

The table 3 shown previously displays the results of the Hausman test, with a p-value of 0.0000 that is lower than 0.05, the level of significance at 5%. This indicates that we should reject the null hypothesis. In a Hausman test scenario, the null hypothesis usually suggests that the random effects (RE) model is the better option. If the p-value is under 0.05, we would opt to reject the null hypothesis, suggesting that the fixed effects model (FE) provides more reliability than the random effects model. Therefore, fixed effect estimation will be utilized to evaluate the objectives of this study.

**4.2 Regression Analysis and Discussion of Result**

According to the Hausman test conducted, the Fixed effect estimation technique was considered as the most consistence and accurate to be used for this study.

**Table 4: Fixed effect analysis on the effect of ACI, ACM, and ACZ on ROE**

****

***Source: Author’s Computation, (Eviews 12)***

Table 4 presents the findings from the fixed effect analysis, which assessed how ACI, ACM, and ACZ are related to ROE. The results revealed that the regression coefficient for ACI in the fixed effect analysis was -0.0928 with a t-statistic of -0.4180 and a p-value of 0.6769 (p>0.05), indicating that the independence of the audit committee has a weak and statistically insignificant connection with the financial success of companies in Nigeria. This suggests that the audit committees of these companies do not significantly affect their ROE.

In the same analysis, the regression coefficient for ACM was found to be -0.3218, with a t-statistic of -0.6311 and a p-value of 0.5296 (p>0.05), signifying a negative and statistically insignificant relationship with ROE. This implies that the number of audit committee meetings held by these firms adversely affects their ROE without any significance benefit.

Furthermore, the regression coefficient for ACZ in the fixed effect analysis was -0.8195, accompanied by a t-statistic of -1.0200 and a p-value of 0.3105 (p>0.05), which also pointed to a negative and insignificant relationship with ROE. This finding indicates that the size of the audit committee in the selected firms negatively impacts their ROE without substantial significance.

**5.1 Conclusions**

This research was conducted to illustrate how audit committee characteristics impact the financial outcomes of production-oriented businesses in Nigeria. The investigation suggested that the autonomy of the audit committee displays a minimal and statistically irrelevant relationship with the financial performance of manufacturing entities in Nigeria. This implies that the audit committees in these organizations do not have a meaningful influence on their return on equity based on the regression analysis results obtained in this investigation. Additionally, the regression analysis findings indicated that there exists a negative and statistically irrelevant correlation between the frequency of audit committee meetings and return on equity. This points to the notion that the frequency of audit committee sessions conducted by these firms negatively influences their return on equity without a significant effect. Moreover, the research indicated through regression analysis that the size of the audit committee is negatively correlated and statistically insignificant in relation to return on assets. This conclusion reveals that the dimensions of the audit committee in the chosen firms negatively affect their return on equity without notable significance.

**5.2 Recommendations**

The research recommends that;

* Manufacturing companies should uphold a standard of independence for their audit committees, as this is vital for these firms; it guarantees the reliability and precision of financial reports, which are pivotal in attracting investors, preserving stakeholder trust, and promoting informed decision-making.
* Moreover, the study advises manufacturing firms to establish an optimal audit committee size tailored to the unique requirements and framework of the organization to enhance the effectiveness of their oversight function and positively influence their financial results.
* Furthermore, the study encourages audit committees to conduct meetings more regularly, as such gatherings are essential in manufacturing firms for guaranteeing financial integrity, increasing investor confidence, and strengthening corporate governance.

Disclaimer (Artificial intelligence)

Option 1:

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

Option 2:

Author(s) hereby declare that generative AI technologies such as Large Language Models, etc. have been used during the writing or editing of manuscripts. This explanation will include the name, version, model, and source of the generative AI technology and as well as all input prompts provided to the generative AI technology

Details of the AI usage are given below:

1.

2.

3.

**References**

Abu, S. E. (2024). Audit committee characteristics and firm financial performance of quoted industrial goods firms in Nigeria. *International Journal of Financial, Accounting, and Management*, *5*(4), 445–458.

Adamu, J. & Ugwudioha, O. (2025). Effects of audit committee characteristics on the financial performance of listed industrial goods firms in Nigeria, *African Journal of Accounting and Financial Research, 8*(1), 153-167

Adewumi, A. A., & Osunwole, O. O. (2025). Unveiling transparency: A deep dive into the audit committee’s role in enhancing financial performance of quoted manufacturing companies in Nigeria. *Journal of Economics, Finance and Management Studies*, *08*(01).

Ahmed, M. M. A., Hassan, D. K. A. E. S., & Magar, N. H. (2024). The moderating role of board gender diversity on the relationship between audit committee characteristics and financial performance: Evidence from Egypt. *Journal of Financial Reporting and Accounting*. *3*(2), 124-136

Altin, M. (2024). Audit committee characteristics and firm performance: A cross-country meta-analysis. *Management Decision*. *4*(2), 501-511.

Bahari, S. (2024). The impact of board size and audit committee characteristics on financial performance in foreign exchange banks: Evidence from Indonesia. *Journal Penelitian IPTEKS*, *9*(1), 85–101.

Bamidele, V. O., Fajana, K. J. & Omananyi, A. (2024). Financial leverage and financial performance of quoted firms in Nigeria: Evidence from oil and gas and agriculture sectors. *Journal of Accounting and Financial Management, 10*(8), 459-467

Beasley, G. (2019). The determinants of board size and composition: Evidence from the UK. *Journal of Corporate Finance,* *14*(6), 51-72.

Faruk, P. M. (2019). The impact of board size on firm performance: Evidence from the UK. *European Journal of Finance,* *15*(4), 385-404.

Karaye, A. B., Musa, A. Z., Bala, H., & Khatoon, G. K. (2024). The nexus between board audit committee attributes and financial performance of firms in Africa. *International Journal of Applied Economics, Finance and Accounting*, *7*(2), 254-265

Karim, R., Roshid, Md. M., Dhar, B. K., Nahiduzzaman, Md., & Kuri, B. C. (2024). Audit committee characteristics and sustainable firms’ performance: Evidence from the financial sector in Bangladesh. *Business Strategy and Development*, *7*(4). 107-120

Maghriby, B., Ramdani, D., & Muslim, A. I. (2024). The impact of audit committee characteristics on the shareholder value creation: Evidence from indonesia. *Journal Riset Keuangan Dan Akuntansi*, *10*(2), 537-550

Modun, U., Robinson O. U, Edith O. O. (2020). Audit committees and corporate performance of selected companies quoted in the Nigerian stock exchange.

Musah, A. Padi, A. & Okyere, B. (2022). Corporate governance, gender diversity, audit committee characteristics and audit fees in Ghana. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-17

Nuhu, M.S., Umaru, S.Y.& Salisu, S. (2017). The effect of audit committee’s quality on of the financial performance of food and beverages industry in Nigeria, *International Journal Business and Management Invention,* *6*(9), 32-40

Okeke, P. C. (2023). Audit committee attributes and financial performance of insurance firms in Nigeria. *Journal of Accounting and Financial Management*, *7*(3), 273-290

Olaoye, F. O. & Bamidele, V. O. (2023) Effect of audit committee characteristics on financial reporting quality of listed deposit money banks in Nigeria. *Fuoye Journal of Management, Innovation and Entrepreneurship, 2*(2), 165-175

Olayinka, O. M (2019). Audit committee and firms’ performance in Nigeria: Case study of selected Nigerian banks. *International Journal of Scientific and Research Publications, 9*(9), 88-94

Onmonya, L. O. & Ebire, K. (2023). Audit committee characteristics and corporate performance: Evidence from listed conglomerates in Nigeria. *Asian Journal of Economics, Business and Accounting, 23*(17), 113-121.

Osi, E. U., Jerry, D. O., & Mark, E. B. (2024). Audit committee attributes and financial performance of listed oil and gas firms in Nigeria. *UMYU Journal of Accounting and Finance Research*, *6*(1), 120–139.

Rafique, Y. Q., & Mamunl, A. A. (2015). The impact of audit committee characteristics on firm performance: Evidence from Pakistan. *Journal of Applied Business Research*, *13*(1), 35–55.

Reynaldi, A. S., & Kuntadi, C. (2024). Pengaruh Tata Kelola Perusahaan, Komite Audit*, Dan Kualitas Audit Terhadap Kinerja Perusahaan*. *2*(2), 222–233.