Audit Committee Attributes and Financial Performance of Oil and Gas Companies in Nigeria

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Abstract: The aim of this study was to investigate audit committee attributes and financial performance of oil and gas companies in Nigeria. Specifically, the study examined the effect of audit committee size-ACS, audit committee independence-ACI, audit committee meetings-ACM on the financial performance (FPER) of oil and gas companies listed on the Nigerian exchange group-NEG. Five (5) oil and gas companies were conveniently selected for a period of six (6) years (2015 – 2020). The Panel Least Square –PLS estimation technique was adopted. The study found that, audit committee size-ACS, audit committee independence-ACI, audit committee meetings-ACM reduces the financial performance (FPER) of the targeted companies minimally and. Hence, those with high level of integrity whom will act as match dogs to the audit committee should be elected/appointed.

Keywords: Audit committee size; Audit committee independence; Audit committee meetings; & Financial Performance.

Introduction

The audit committees are saddled with great responsibilities and one of which is to make recommendations on either the appointment or change of an existing external/non-statutory auditor. They also help review the effectiveness of a firm's internal control system (Alqatamin, 2018). By implication, the audit committee members must be highly knowledgeable otherwise they may not be able to carry-out such task accordingly (Zabri, Ahmad & Wah, 2016).

Ashari and Krismiaji (2020) reported that there have been massive fraud and unethical practices within and among a number of organizations in Nigeria including Unilever Plc. Similarly, Isa and Farouk (2018) affirmed that these scandals recorded by firms in and outside Nigeria like that of Cadbury Nigeria Plc in 2006, Oceanic Bank Plc, and Intercontinental Bank Plc brought doubt in the credibility of the financial reporting. To address these issues, Isa and Farouk (2018) reported that, the audit committee attributes is believed to be one of the factors that could be used to curtail the extent of manipulative accounting.

Hope and Ikueze (2018) disclosed that the main function of an audit committee is monitoring the firm's financial performance and financial reporting. More so, the extent of audit work, auditor independence, and the resolution of disputes between auditors and executive management. Alqatamin (2018) opined that "the primary role and responsibility of audit committees is to make recommendations on the appointment and change of external auditor; it covers wider areas including the monitoring of managers and review of the company's internal control system". Zabri, Ahmad and Wah, (2016) suggested that "knowledgeable audit committees help enhance the company's performance; therefore, good characteristics of audit committees are associated with good company performance".

Although, a number of studies have been done on area of audit committee attributes-ACA and FPER, it appears that, many studies on ACA and FPER have been conducted outside Nigeria (Ashari & Krismiaji, 2020; Ashari & Krismiaji, 2019; Alqatamin, 2018; Glover-Akpey & Azembila, 2016), while most of these studies conducted in Nigeria emphasized more on establishments like insurance companies, agriculture, food and beverage, conglomerates, health care, with little focus on oil and gas companies; for example, the research done by (Osemene & Fakile, 2018; Hope & Ikueze, 2018; Ebere & Ibanichuka, 2016). Evidently, these studies were mostly confined to agricultural sector, insurance firms, food and beverage firms, health care, conglomerates, etc. These studies may not be applicable in oil and gas industry given the different regulatory policies.

Additionally, the period covered suggests another gap. The works of Osemene and Fakile, 2018 and that of Hope and Ikueze (2018) for instance, covered from2013-2017 and 2007-2016 respectively. Also, Ebere and Ibanichuka (2016) covered the period of 2008 - 2014. These periods can be regarded as not too current. Some of the findings of these studies may not be relied upon in view of the fact that the studies have been taken over by the changes. Consequently, there is the need to conduct a study with a view to expanding the scope to 2020 with the aim of filling the gap that exist in the literature. Against this backdrop, the study assessed audit committee attributes on the financial performance-FPER of oil and gas companies in Nigeria. Specifically, this research seeks to examine the effect of audit committee size-ACS, audit committee independence-ACI, and audit committee meetings-ACM on the return on assets of oil and gas companies in Nigeria.

2.   Literature Review

Eyenubo, Mohamed and Ali (2017) described audit committee as the committee of company's board of directors vested with important responsibilities to on behalf of the company shareholders, to oversee the financial reporting, the external auditor's

qualification, independence and performance and the internal audit function. Filli, Umaru, and Othman (2021) defined audit committee as a committee appointed by a company as a liaison between the internal and the external governing bodies.

One audit committee proxy considers is the size of the committee. The size of an audit committee may have effect on its effectiveness and ultimately on the quality of financial reporting (Mbobo & Umoren, 2016). According to Eyenubo, Mohamed and Ali (2017) the important audit committee's role is to oversee the integrity of financial statements, the efficiency of internal control system and monitoring of both internal/statutory and external/non-statutory auditors. More so, an audit committee that is truly independent is believed to carry out its responsibilities honestly without any interference from those upon whom duties it performs an oversight functions (Filli, Umaru & Othman, 2021).

Another audit committee attributes considered as a determinant of the effectiveness of the committee is frequency of the committee's meetings (Chukwu & Nwabochi, 2019). Adegboye, Ojeka, Alabi, Alo and Aina (2020) opined that the number of the committee's meetings is a major determinant of committee's reliability and efficiency as board members that meet as often as possible have a higher probability of achieving goals and organizational objectives.

Furthermore, FPER globally is the hub and the pillars of every nation's economic and financial system, hence, the stability and underlying economic performance of oil and gas companies is vital and paramount to the macroeconomic stability (Mehmood, Hunjra & Chani, 2019). The stakeholders in the targeted industry and the policy makers have high agitation on their performance because of the risks inherent in not getting adequate returns on the investment (Adegbie & Otitolaiye, 2020). Ashari and Krismiaji (2020) opined that financial performance has implications for the company's future. This follows the agency theory concept which formed the theoretical foundation of this paper.

Otemu and Otemu (2021) assessed whether audit committee characteristics drive financial performance of publicly quoted service firms in Nigeria. Data were sourced from the reports of sixteen (16) publicly quoted service firms during the period 2012-2019. Multivariate estimation technique was employed in the analysis of data and findings indicated that audit committee characteristics affects FPER significantly yet positively.

Ashari and Krismiaji (2020) reported that, audit committee affect the performance of Indonesian firms from 2016 to 2017 positively. Again, Rahman, Meah and Chaudhory (2019) reported that, external audit quality and audit committee size improve firm's performance significantly. However, audit committee meetings improve and firm performance from 2013 to 2016.

Alqatamin (2018) investigated the effect of audit committee characteristics on the company's performance. The sample consists of 165 non-financial companies listed on the Amman Stock Exchange (ASE) from 2014-2016. Audit committee Independence, size, , and gender diversity affect firm's performance significantly but audit frequency and experience improves FPER minimally.

Based on data sourced from 2007 to 2016, Hope and Ikueze (2018), a sample of 50 listed firms was used. The study was predicated on ex post facto and cross-sectional research design and used secondary data for the analysis. Audit committee independences and, meetings improve firm performance.

3.   Methodology

The correlation research design was adopted. The study sampled five (5) oil and gas companies out of the ten of them as at 31st December 2020. The study covered from 2015 to 2020. The Panel Least Square was adopted. In specifying the model for this study, the researcher adopted and modified the model used by Asiriuwa, Aronmwan, Uwuigbe and Uwuigbe, (2018) & Umobong and Ibanichuka (2017). Our model is stated as:

$$FPER_t = \beta_0 + \beta_1 ACZ_{it} + \beta_2 ACI_{it} + \beta_3 + ACM_{it} + e_t$$

Where:

FPER	=	Financial Performance (ROA)
ACZ	=	Audit Committee Size
ACI	=	Audit Committee Independence
ACM	=	Audit Committee Meetings

"i" for firms

"t" for time

e_{it} for error terms

Table 1: Operationalization of Variables

Variable	Measurement	Apriori Sign
FPER	net income/ total asset	
ACZ	Numbers of the committee members	+
ACM	Times of meeting during the year	+
ACI	Numbers of Executive director to ACZ audit committee	+

Source: Researcher's Compilation from Previous Studies
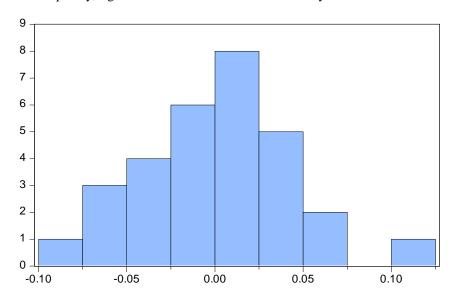
Results and Interpretation

This section cover descriptive statistics result correlation analysis, presentation of the panel least squares regression result and the discussions.

Table 2: Descriptive Statistics

	FPER	ACZ	ACI	ACM
Mean	0.0399	5.7333	0.5093	4.2333
Median	0.0430	6.0000	0.5000	4.0000
Maximum	0.1486	8.0000	0.5700	6.0000
Minimum	-0.0723	4.0000	0.5000	3.0000
Std. Dev.	0.0446	1.2015	0.0242	0.5683
Observations	30	30	30	30

Source: E-view 9.0 Output, 2022

From Table 2, the mean and standard deviation values of the regressand: FPER showed positive and negative values ranging from -0.0723 to 0.0446 suggesting that FPER of the selected oil and gas companies. Meanwhile, the regressors [ACZ, ACI, and ACM] reported mean values of 5.7333, 0.5093, and 4.2333 and standard deviation values of 1.2015, 0.0242, and 0.5683. Consequently, figure 1 reveals that the model is normally distributed.

Figure 1: **Normality Test**
Source: Researchers Computation, 2022

Table 3: Correlation Analysis

Correlation t-Statistic Probability	FPER	ACZ	ACI	ACM	
FPER	1.0000				

ACZ	-0.1683	1.0000			
	-0.9034	-----			
	0.3740	-----			
ACI	-0.03336	0.4206	1.0000		
	-0.1767	2.45289	-----		
	0.8610	0.0207	-----		

ACM	0.0434	0.4477	0.3627	1.0000	
	0.2299	2.6497	2.0593	-----	
	0.8199	0.0131	0.0489	-----	

Source: Eviews 9 (2022)

Tables 3 shows that, ACM positively correlated with FPER since it has a positive coefficient value of 0.043399 while both ACZ and ACI negatively correlated with FPER. Also, issue of high-correlation was not also present as none of them were above 70%.

Diagnostic Tests and Regression Result

To make sure that, the results are valid for predictions; three (3) major diagnostic tests were conducted. They are in table 4:

Table 4: Diagnostic Tests

Multicolinearity Test		
Variable	**VIF**	**Conclusion**
ACZ	1.3837	No Multi-collinearity problem
ACI	1.2734	No Multi-collinearity problem
ACM	1.3113	No Multi-collinearity problem
Heteroskedasticity Test		
F-statistic = 1.2297	Prob. F(3,26) =0.3189	Homoskedastic i.e. Equal Variance
Hausman Test		
Period Random	Prob=0.7592	Random Effect Model-REM is preferred

Table 4 displayed that, no Multicollinearity, and Heteroskedascity issue was recorded in the series. Meanwhile, the study affirmed that the REM is the most appropriate model for the study. The result is therefore pre

Table 5: Regression Results

Regressand: FPER				
Periods Covered: 2015 2020 (6 years)				
Cross-sectional Units: 5				
Balanced Panel Observations: 30				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACZ	-0.0086	0.0080	-1.0771	0.2913
ACI	0.0251	0.3924	0.0639	0.9495
ACM	0.0048	0.0170	0.2799	0.7817
C	0.0561	0.1850	0.3032	0.7641
R-squared	0.54190	Adjusted R-squared		0.51903
Durbin-Watson stat				1.6797
F-statistic	4.57966	Prob(F-statistic)		0.004

Source: Researcher's Computation via Eviews 9 (2022)

Table 5 reported R^2 and adjusted R^2 stood at 0.54190 and 0.51903. By implication, our model is highly predictive. Again, the Prob.(F-statistic) score of 0.004

F-statistics value and the associated p-value stood at 0.457966 and 0.003981 respectively indicating that the hypothesis of a joint statistical significance of the model cannot be rejected as 5% level of significance and the linearized specification of the model can be assumed as appropriate.

The evaluation of the slope coefficients of the regressors revealed that, Audit Committee Size (ACZ) reduces Financial Performance (FPER) minimally. However, both ACI and ACM improves FPER by insignificant value of 0.025087 and 0.004766 respectively. It is worthy to note that none the variables [ACZ, ACI and ACM) is significant. Lastly, the Durbin-Watson value of 1.67 suggests that there is no evidence of autocorrelation among the error term.

5.   Conclusions and Recommendations

This paper studied audit committee attributes-ACA and financial performance-FPER of oil and gas companies in Nigeria. The model expresses the regressand (FPER) in relation to regressors [ACZ, ACI, and ACM], their coefficient values, and error terms.

Consequently, the study concluded that, audit committee attributes only improves the performance of the targeted countries minimally. In light this; the following recommendations were made:

1.   Those with high level of integrity whom will act as match dogs to the audit committee should be elected/appointed.
2.   The current number of independent audits should be increased.
3.   The Audit committees of the targeted companies should meet regularly.

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