

**EFFECTS OF AUDIT COMMITTEE AND AUDIT FIRM
CHARACTERISTICS ON FINANCIAL PERFORMANCE OF LISTED
INSURANCE COMPANIES IN NIGERIA**

BY

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DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. It has not been presented in any previous application for M.Sc. Accounting and Finance. All quotations are indicated and sources of information specifically acknowledged by means of references.

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CERTIFICATION

This dissertation entitled “effects of audit committee and audit firm characteristics on financial performance of listed insurance companies in Nigeria” meets the requirements governing the award of M.Sc. in Accounting and Finance of the School of Postgraduate Studies of Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

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ABSTRACT

The accounting and auditing scandals that happened throughout the world has made the issue of audit committee, audit firm and firm performance to become the subject of debate among politicians, business leaders, and regulators. It is based on this backdrop that this study examines the effect of audit committee and auditor characteristic on the financial performance of listed insurance companies in Nigeria for the period of 2009 to 2016. This study adopts expo facto research design. The study population is the ten listed insurance companies that have their financial statement available in the Nigerian Stock Exchange for the period of 2009 to 2016. Secondary data were collected from financial statements of the sampled firms for the period of 2009 to 2016. Panel regression analysis was used to analyze the data. This study found that audit fee has a negative significance effect on financial performance of listed insurance companies in Nigeria. It is also found that audit committee number of meetings and auditor size to have no significant effect on financial performance of listed insurance companies in Nigeria. The study also concludes that an audit fee has a negative influence on financial performance of listed insurance companies in Nigeria. The study recommends that listed insurance companies in Nigeria should increase the number of times they meet in a year as this will strengthen its financial performance. This study also recommends that insurance companies should strengthen their audit committee independence and increase the number of non executive members from three to four which will strengthen their financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In order for corporate governance to be improved, three well accepted oversight committees were established, through which board duties could be rigorously discharged (Higgs, 2003). As stated by Tricker (1994), these committees are audit, nomination, and remuneration. Moreover, a recent perspective has been raised to point out that not only the composition of the board is responsible for controlling the board, but rather both, the structure and composition of the board's subcommittees are responsible too. Kesner (1988) maintains that most important board decisions originate at the committee level while Vance (1983) argues that there are four board committees that greatly influence corporate activities; these are audit, executive, compensation, and nomination committee.

The recent rise in accounting and auditing scandals throughout the world has made the issue of audit committee, audit firm and firm performance to become the subject of debate among politicians, business leaders, and regulators. Corporate scandals such as Enron, Global Crossing, Tyco, and WorldCom to mention but a few, have shaken the investors' confidence and made it difficult for companies to raise equity from the stock market (Agrawal, 2005). In commenting on these scandals, many reports believed that the board of directors and its committees do not have a good supervision on the management. For example, Enron manipulated its financial statements through off-balance sheet financing. Therefore, the board was unable to disclose the distorted statements because the board lacked independence from senior executives (Deakin & Konzelmann, 2004). Moreover, WorldCom materially overstated its earnings and finally filed for bankruptcy. The investigation showed that the audit committee failed to effectively oversee the

managers' duties (Weiss, 2005). As a result, these well-publicized corporate scandals together with the Asian financial crisis in 1997 have highlighted the importance of good corporate governance practices for the long-term survival of companies (Mokhtarul, Joher & Ahmed, 2009).

The relationship between audit committees and external audit is a complex one, stemming from both the demand for audit services by the client and the supply of audit services by the external auditor (Collier & Gregory, 1996). From the demand side, the presence of an audit committee might lead to an increase in audit fees because the committee should ensure that audit hours are at a level that does not compromise the quality of the audit (Cadbury Committee, 1992; Jack, 1993). From the supply side, the audit committee's involvement in strengthening internal controls might lead the external auditor to reduce the assessed level of control risk, resulting in less substantive testing (Collier & Gregory, 1996).

This could be negated, however, by an increase in audit hours as a result of the need for the audit partner to liaise with the audit committee, attend committee meetings and prepare reports. Goodwin and Munro (2004) found that auditors believe that the presence of an audit committee has little impact on audit testing because of increased partner and manager time. Additionally, Abbott, Parker, Peters and Raghunandan (2003) suggest that an effective committee should reduce the threat of auditor dismissal.

In Saudi Arabia, their Stock Market also faced an extraordinary crash at the beginning of 2006, which leads the Capital Market Authority to suspend the trading of two firms. In Nigeria, corporate governance issues became more topical after the simultaneous sack of eight banks chief executive officers by the governor of Central Bank of Nigeria in 2009 and the imposition of

external auditors rotation after ten years of engagement by the apex bank. These events created a serious question about the effectiveness of different monitoring devices that were presumed to protect investors' interests in Nigeria.

The audit committee is one of the committees that is established by the Board of Directors and whose major responsibility has to do with financial reporting. Apart from the benefit that is gained from the audit committee establishment, studies suggested that the size, composition, expertise and meeting frequency of audit committees may impact their monitoring effectiveness (DeZoort, Hermanson, Archambeault, Reed & Walker, 2004). Therefore, different internal and external mechanisms have been considered via corporate governance to prevent agency conflicts as well as reducing costs associated with such agency.

This study is thus geared towards unfolding the possible relationships that exist between audit committee characteristics, audit firm characteristics and financial performance with special reference to the Nigerian Insurance Industry. Nigeria had its share of inelegant business practices that have resulted in failed corporate firms. Hence, several insurance companies in Nigeria have gone out of business; while some have been acquired or merged due to poor performance, following poor corporate governance practices. For a developing country, like Nigeria, corporate governance is of critical importance. Recently, Nigeria has initiated pillars of corporate governance by sponsoring a series of legislative, economic and financial reforms which seek to promote transparency, accountability and the rule of law in the nation's economy. Consequently, corporate governance is relevant in insurance companies, as it promotes accountability, enhances transparency of operations, improves firm's profitability, protects stakeholders' interest by aligning their interest with that of the managers, and facilitates growth of the insurance industry.

The significance of the insurance sector is that the sector is a key part of the financial services sector. In other emerging economies, it has been identified as being critical to the ability of other sectors to grow and develop, simultaneously providing an opportunity to hedge against possible risks of private, social and economic investments. Insurance companies also serve as a base for collecting relatively small premiums from millions of policy holders, into a pool to support term financing for economic growth. The government of Nigeria is taking calculated steps to integrate the insurance sector into the global best practices in financial reporting disclosure through the adoption of the International Financial Reporting Standard. The National Insurance Commission (NAICOM) is closely collaborating with other stakeholders like the Financial Reporting Council of Nigeria (FRC), Securities and Exchange Commission, Institute of Chartered Accountants of Nigeria (ICAN), amongst others towards ensuring a full adoption of International Financial Reporting Standards (IFRS) 4 in the Nigeria Insurance sector. This study is motivated by the interests surrounding the reforms engendered by the corporate governance code in the Nigerian Insurance Sector in response to corporate failures, global best practice and their expected impact on financial performance of listed insurance companies in Nigeria.

It is based on this backdrop that this study examines the effect of audit committee characteristics and audit firm characteristics on financial performance of listed insurance companies in Nigeria.

1.2 Statement of the Problem

The awake of recent accounting and auditing scandals throughout the world, the issue of audit firm versus firm performance has become the subject of debate among politicians, business leaders, and regulators. Corporate scandals such as Enron, Global Crossing, Tyco, and World

Com, have shaken the investors' confidence and made it difficult for companies to raise equity from the stock market (Agrawal, 2005).

Most studies conducted in the area of effect of audit committee characteristics and auditor characteristics on financial performance were carried out in foreign countries, studies like (Mrwan, Aiman & Shehata, 2014; Richard, 2014; Salloum, Azzi & Gebrayel, 2014; Ebrahim, Faudziah & Abdullah, 2014; Narwal & Jindal, 2015; Laith, 2015; Merawati, 2015; Vuko, Maretic & Cular, 2015; Muganda & UmulKher, 2015).

The few studies that were carried out in Nigeria are studies like (Kajola, 2008; Babatunde & Olaniran, 2009; Chechet, Yancy & Akanet, 2013; Okolie, 2014; Ojeka, Iyoha & Obigbemi, 2014; Hussaini & Gugong, 2015). These studies were carried out in the area of Food and beverages industry, manufacturing industry and banking industry, none of the study was carried out in the insurance industry also none of the study combined audit committee characteristics and auditor characteristics together as independent variables, this therefore provide the gap this study filled.

In the light of previous studies' results, this study came to highlight the role that the audit committee characteristics and external audit can play in the financial performance of listed insurance companies in Nigeria. The need for such study is to bridge the gap in literature since these relationships have not been researched extensively in Nigeria. Moreover Nigeria has witnessed many financial scandals that led many companies to go bankrupt such as Global Business, and Alshamyleh Gate. Thus, National Insurance Commission has issued the code of conduct in 2009 which requires listed insurance companies to form audit committees.

This study focuses on audit committee, auditor characteristics to determine their relationship with financial performance of listed insurance companies in Nigeria. To the best of knowledge of

the researcher of this study, not much extant literature has looked at auditor characteristics and audit committee attributes jointly, to examine their relationship with firm performance. This study therefore fills this gap by examining how audit committee attributes and auditor characteristic influence financial performance of listed insurance companies in Nigeria.

1.3 Research Questions

This study provides answers to the following research questions:

- i. Does audit committee number of meetings affect financial performance of listed insurance companies in Nigeria?
- ii. Does audit committee independence affects financial performance of listed insurance companies in Nigeria?
- iii. Does audit fee affects financial performance of listed insurance companies in Nigeria?
- iv. Does audit firm size affects financial performance of listed insurance companies in Nigeria?

1.4 Objectives of the Study

The major objective of this study is to examine the effect of audit committee, auditor characteristics on financial performance of listed insurance companies in Nigeria.

The specific objectives of the study are to:

- i. assess the effect of audit committee number of meetings on financial performance of listed insurance companies in Nigeria.
- ii. determine the effect of audit committee independence on financial performance of listed insurance companies in Nigeria.

- iii. investigate the effect of audit fee on financial performance of listed insurance companies in Nigeria.
- iv. examine the effect of audit firm size on financial performance of listed insurance companies in Nigeria.

1.5 Statement of the Hypotheses

The following hypotheses are tested to achieve the research objectives:

Ho₁: Audit committee number of meetings has no significant effect on financial performance of listed insurance companies in Nigeria.

Ho₂: Audit committee independence has no significant effect on financial performance of listed insurance companies in Nigeria.

Ho₃: Audit fee has no significant effect on financial performance of listed insurance companies in Nigeria.

Ho₄: Audit firm size has no significant effect on financial performance of listed insurance companies in Nigeria.

1.6 Significance of the Study

This study is significant because it focuses on issues related to audit firm characteristics that are threatening the survival of audit firms of all sizes, on one hand and the going concern of corporate entities on the other hand. The study will also be of importance in ensuring the credibility of financial information not only for the purpose of pointing the tendencies of corporate scandals, but most importantly the survival of accounting and audit profession and the development of healthy financial and capital market. The study will therefore be of immense value to auditors, regulators, managers, professional accounting bodies, existing and potential shareholders and researchers.

The findings from this study could assist auditors in their duties and responsibilities with regards to financial reporting, as to the factors that are of eminent importance in achieving high audit quality and high financial reporting quality. The study will also offer important input to serve as a strong base for the regulators and professional accounting bodies to establish policies relating to type of audit firm characteristics. This is important because most of the issues in this area are based on anecdotal evidence, particularly in Nigerian context since evidence regarding these issues has been relatively limited. It is therefore envisaged that this study will not only help enrich the literature, but also provide important quantitative information for policy formulation.

The findings of this study could also educate both existing and potential shareholders of listed Insurance Companies in Nigeria on audit committee and audit firm characteristics that improve financial performance. While at the same time may be of great benefit to researchers, since it may provide empirical evidence on the relationships between audit committee, audit firm characteristics and financial performance of listed Insurance companies in Nigeria. On which future studies may be built by upcoming researchers. Management and practicing auditors in Nigeria are anticipated to become more informed on the intricacies surrounding board and audit committee characteristics through the finding of this academic work while community will also benefit enormously from the findings of this research.

In terms of methodology applied, this study is significant by using secondary data, which is a reliable means of getting information in this type of study. The use of ex-post facto research design is premised on the fact that this study relied on secondary data that are quantitative in nature and these data had already been collected by the study population. The use of panel regression analysis will be the best method because this study involves the combination of time series and cross sectional data; hence, panel regression is appropriate.

1.6 Scope of the Study

This study dwells on audit committee, and audit firm characteristics and financial performance, within the context of listed Insurance companies in Nigeria. The audit committee characteristics are restricted to audit committee number of meetings and audit committee independence while auditor characteristic is proxy with audit fee and auditor size. The study covers the period of seven years, from 2009-2015. This period is chosen because it captured the year National Insurance Commission introduced corporate governance codes for the insurance industry, while 2015 which gives a time frame of seven years is considered relatively sufficient to examine the effect of audit committee and auditor characteristic on financial performance of listed insurance companies in Nigeria

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Audit Committee

The concept of audit committee differs according to the goals, functions, and responsibilities assigned to them. The major goal behind forming the audit committee is to increase auditing quality. Arens and Loebbecke (2009) defined it as a group of persons selected from members of the board of directors who are responsible for retaining independence of the auditor. Researchers have defined audit committee in a variety of ways. According to Cadbury Committee (1992), audit committee is a formal institution used by corporate owners to discipline organizations. Morrin and Jarrell (2001) argued that an audit committee is a special group of experts, which controls and safeguards the interests of the capital market investors, corporate owners, managers, employees, suppliers, creditors among others.

An audit committee is an important corporate governance mechanism in firms to protect the interests of shareholders and oversee financial reporting (Mallin, 2007). An audit committee is not only a group of persons, but also a set of processes, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. A perfect audit committee can strengthen intra-company control and can reduce opportunistic behaviours and lower the asymmetry of information, so it has a positive impact on the high quality of disclosed information (Li & Qi, 2008). The main function of an audit committee is monitoring the firm's financial performance and financial reporting. In this sense, it is expected that audit committees should strongly affect the selection, removal and remuneration of auditors, the content and extent of audit work, auditor independence, and the resolution of disputes between auditors and

executive management. Also audit committees should review and agree upon chosen accounting policies. As well as they tend to persuade a company's approach to financial reporting, levels of disclosure, and adherence to standard practice. Also, besides monitoring the reliability of the company's accounting processes, audit committees should ensure the compliance with corporate legal and ethical standards, including the maintenance of preventive fraud controls (Turley & Zaman, 2004).

The main function of an audit committee is to meet regularly with the external and internal auditors to review the financial statements, audit process and internal controls of the firm. This helps to lessen agency problems by the timely release of unbiased accounting information by managers to shareholders and others who rely on such information for making decisions, thus reducing information asymmetry between insiders and outsiders.

Many major studies have discussed the importance of audit committees. For instance; Wild (1996), stated that forming an audit committee enhances investors' expectancy of receiving improved financial reports. As a result, the firm will more likely experience an increase in its earnings response coefficients. Similarly, McMullen (1996) found that companies with an audit committee are less likely to experience errors, irregularities and other indicators of unreliable financial reporting. It is widely believed that good audit committee practices are an important factor in improving effectiveness of the companies, especially in developing countries and during the period of the global economic crisis. However, the audit committee activities are different in the various countries due to disparate corporate governance structure resulting from dissimilar social, economic and regulatory conditions (Abdurrouf, Siddique & Rahaman, 2010).

Literature on audit committees suggests that the roles of regulatory and controlling authorities are mainly important in improving the market value of the firm. Good audit committee is focused on the protection of the rights of shareholders and plays an important role in the development of capital markets by protecting investor interests (Abdurrouf, 2010). The role of an audit committee is important also in implementing corporate governance principles. These principles suggest that audit committee should work independently and perform their duties with professional care. In case of any financial manipulation possibilities, the audit committee is held accountable for their actions as the availability of transparent financial information reduces the information asymmetry, which can be helpful for improvement of the value of the firm (Bhagat & Jefferis, 2002). Besides, an audit committee is the entity that safeguards public interest. The board usually delegates responsibility for the oversight of financial reporting to the audit committee to enhance the breadth of relevance and reliability of annual report. Thus, an audit committee can be a kind of monitoring mechanism that improves the quality of information flow between firm owners (actual and potential shareholders) and managers. The audit committee serves many important corporate governance functions and provides advice on operational and regulatory matters (Menon & Williams, 1994). It helps to alleviate agency problems by facilitating the timely release of unbiased accounting information by managers to shareholders, creditors, thus reducing information asymmetry between insiders and outsiders (Klein, 1998).

The Audit committee thus, is considered to be an additional internal governance mechanism whose impact is to improve the quality of financial management of a company and hence its performance. In this respect, an audit committee has four main characteristics that should be considered, these are; audit committee independence, audit committee size, audit committee member financial expertise and audit committee meetings.

In recommending that all listed companies should establish an audit committee, the Cadbury Committee (1992) followed the US National Commission on Fraudulent Financial Reporting (Treadway Commission, 1987) and the Canadian Macdonald Commission (1988). In Nigeria, audit committee was a child of the Companies and Allied Matters Act (CAMA, 1990). In addition to providing an audit report to the members, the auditor shall in the case of public company also make a report to an audit committee which shall be established by the public company (section 359 (3), CAMA, 1990)

The audit committee consists of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members) and shall examine the auditors report and make recommendations thereon to the annual general meeting as it may think fit. Provided, however, that such member of the audit committee shall not be entitled to remuneration and shall be subject to re-election annually. Any member may nominate a shareholder as a member of the audit committee by giving notice in writing of such nomination to the secretary of the company at least twenty-one days before the annual general meeting. (SEC 359 (4-5), CAMA, 1990). Subject to such other additional functions and powers that the company's articles of association may stipulate, the objectives and functions of the audit committee shall be to:-

- (a) Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;
- (b) Review the scope and planning of audit requirements;
- (c) Review the findings on management matters in conjunction with the external auditor and departmental responses thereon;

(d) Keep under review the effectiveness of the company's system of accounting and internal control;

(e) Make recommendations to the Board in regard to the appointment, removal and remuneration of the external auditors of the company; and

(f) Authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee. (SEC 359 (6), CAMA 1990)

In this study, audit committee characteristics such as audit committee number of meetings and audit committee independence are considered. This is because though a considerable number of studies exist on audit committee around the globe, there is dearth of evidence using audit committee meetings and audit committee independence from Nigeria.

Audit Committee Number of Meetings

Audit committee meetings refer to the frequency by which the committee meets together. It is expected that more active audit committees that meets often will be more effective. An audit committee that rarely meets (considered inactive) may be less likely to monitor management effectively. The average number of audit committee meetings refers to the level of audit committee activity (Xie, Davidson & DaDalt, 2001; Menon & Williams, 1994). Bedrad, Chtourou and Courteau (2004) stated that in order for the audit committee to carry out its function of control it must maintain a certain level of activity through increased frequency of meetings.

The numbers of audit committee meeting are considered to be an important attribute for their monitoring effectiveness (Lin, Li & Yang, 2006). Anderson, Mansi and Reeb (2004) noted that

audit committee monitors the internal control and provides reliable information to the shareholders. Therefore, audit committee number of meetings strengthens the internal auditing function and oversees management's assessment of business risk (Hsu, 2007). The number of audit committee meetings is considered as a proxy for audit committee activity (Xie, Davidson & DaDalt, 2003). Therefore, the audit committee that meets more frequently with the internal auditors is better informed about auditing and accounting issues. When an important auditing or accounting issue arises, the audit committee can direct the proper level of internal audit function to address the problem promptly. Therefore, an audit committee that meets frequently can reduce the possibility of financial fraud (Raghunandan, Rama & Scarbrough, 1998; Abbott, Parker & Peters, 2004). Inactive audit committees with fewer numbers of meetings are unlikely to supervise management effectively (Menon & Williams, 1994).

Beasley, Carcello, Hermanson and Lapides (2000) found that fraudulent firms with earning misstatements have fewer audit committee meetings than non-fraud firms. An active audit committee with more meetings has more time to oversee the financial reporting process, identify management risk and monitor internal controls. As a result, firm performance increases with audit committee activity. More importantly, there have been very few studies that examined the effect of audit committee meeting on firm performance. For example, Hsu (2007) found that there is a positive relationship between audit committee meeting and firm performance.

Previous studies suggested that firms with the higher number of audit committee meetings experience less financial restatement (Abbott et al., 2004), are less likely to be sanctioned for fraud as well as aggressive accounting (Abbott et al., 2000; Beasley et al., 2000) and are associated with lower earnings management incidence (Xie et al., 2003). These studies suggested that audit committees that meet regularly during the financial year are associated with effective

monitoring. The more frequent they meet, the more efficient they discharge their oversight responsibilities.

Audit Committee Independence

Audit committee characterized by a higher member of non-executive directors are considered to be more independent compared to those with more executive directors (Mohd, Takiah & Norman, 2009). Similarly, external audit committee members have a key role in making sure that the practices of corporate governance in auditing processes (Swamy, 2011). From the perspective of both the agency theory and resource dependence theory, the autonomy given provides the opportunity to reach the right decision without any restriction and to detect errors and reveal them without any problems because the independent reviewers are not related to the company. The relationship between audit committee independence and firm performance is expected to be positive. However, there are very little studies that have examined the relationship between audit committee independence and firm performance both in the developed nations (Dey, 2008; Khanchel, 2007) or the developing countries (Nuryanah & Islam, 2011; Saibaba & Ansari, 2011; Swamy, 2011). They found a positive association between the audit committee independence and firm performance.

Similarly, few researchers also found a negative association between the audit committee independence and the firm performance (Dar, Naseem, Rehman & Niazi, 2011). In the end, there are some researchers who found adverse results in prior outcome and revealed no relationship between audit committee independence and firm performance such as, (Al-Matari, Al-Swidi, Faudziah & Matari, 2012; Ghabayen, 2012; Khan & Javid, 2011).

2.1.2 Concept of Audit Firm Characteristics

The quality of the auditing institutions differ from one another and researchers use alternatives for differentiating between the auditing firms with high qualities and those with low qualities. The status of the auditing firms, their history and trade mark are some of the discriminating factors being employed by researchers to do that as it is believed that bigger institution and those with more respectful and famous trade mark in relation to the others exhibit higher quality auditing job.

The auditing status is one of the features which influence the auditing quality. DeAngelo (1981) believes that the bigger auditing companies offer auditing services with higher qualities, since they are intending to acquire better fame in the work market and because the number of their clients is great they are not concerned with and worried about losing them. It is stipulated that such institutions due to having access to more interests and facilities for training their own auditors and performing various tests offer auditing services with higher qualities (Mojtahedizadeh & Aghaee, 2004).

Geiger and Rama (2006) asserted that the big audit firms provide a high quality report in terms of producing lower errors compared with the non-big audit firms. Large audit firms are assumed to perform more powerful tests. As a consequence, larger audit firms are more likely to be associated with more precise information than are smaller audit firms, all things being equal (Beatty, 1989; Titman & Trueman, 1986). Analytical research has suggested that audit firm size and audit quality are positively related. For example, DeAngelo (1981) proposes that larger firms provide higher-quality audits because larger audit firms have fewer incentives to compromise their standards to ensure retention of clients in comparison with smaller firms. Similarly, Dopuch

and Simunic (1982) argued that audit quality is a function of the number and extent of audit procedures performed by the auditor and that larger firms have more resources with which to conduct tests. Moore and Scott (1989) demonstrated analytically that audit firm size and the extent of audit work are positively related.

Firms with bigger auditing size besides their fame and credit perform more successfully in issues such as training the staff and maintaining independence (seeming and real) in the face of the employees and other important issues influencing the increase in their quality of auditing. Therefore, the audited companies by the auditing organization are rated among the companies that their financial statement items are of a great value and in the end they will enjoy from a higher auditing quality. And on the contrary, the companies audited by the other auditing institutions (auditing firms which are members of the formal accountant society) are regarded as having smaller size in relation with the auditing organization. These auditing firms have lower validating and valuation power in comparison with the auditing organization and subsequently they will have lower quality auditing from the independency, staff training etc. (Yahya, Yeganeh & Kaveh, 2010).

Audit Fee

The amount of fees for audit services that a client firm pays to its audit firm reflects the level of audit work the latter has to perform in the auditing process. The definition of this level of work embodies the auditor's assessment of the process's complexity and the desired level of risk. In other words, all other things considered, if an auditor wishes to decrease the risk of issuing a clean opinion when there are materially relevant distortions in the client's financial statements,

he generally acts on the nature, extent and timing of audit procedures, which, naturally, influence the final amount of required fees.

Audit fee can be described as the amount charged by the auditor or audit firm for an audit assignment. That is, the amount charged by the auditor for any activity performed in order to give an opinion on the true and fair state of affairs or position of the client's business. The fees charged is usually based on the contract between the auditor and the auditee with respect to the time spent on the audit work, the extent of service required, the number and quality of staff needed to effectively carry out the audit process and much more (El-Gammal, 2012). All these are usually brought to bear before deciding the audit fees to be charged.

The concept of audit fees is not new. It may be inferred to date far back as the concept of auditing itself. While auditing involves an examination or investigation of the books of account, records, and accounting system of a business by an appointed third party called the auditor in order for the auditor to state if in his/her opinion, the books of account so examined has been prepared in accordance to relevant status and principles and if it represents a true and fair view of the organization (Company and Allied Matters Act, 2004), audit fees represent the amount paid by the business for the audit services rendered by the auditor although this is not categorically defined in the International Standards on Auditing (ISA), Statements on Auditing Standards (SAS), Code of Ethics for Professional Accountants (IFAC, 2010), or in the Code of Professional Conduct (AICPA, 2009).

According to Ionela-Corina, Ioan-Bogdan, Mihai and Marilena (2012), a simple definition for audit fees is that reasonable amount payable to the auditor, for the audit services offered to the auditee. El-Gammal (2012) posits that audit fees can be defined as the "amounts of fees (wages)

charged by the auditor for an audit process performed for the accounts of an enterprise (auditee)”. His definition presupposes that the reward of the auditor for audit assignment performed is audit fees. Furthermore, he claims that the determination of the audit fees is usually based on the contractual agreement between the auditor and the auditee. The contractual agreement will normally be made after incorporating some things like the time to be spent on the audit work, the extent of service required, the number of staff needed for audit completion, the timing and nature of the audit, and lots more. Amba and Al-Hajeri (2012) opine that audit fee is that fee or amount that businesses are expected to pay to the external auditor for carrying out audit and assurance services. They assert that audit fees is important to both the auditor as well as the auditee because to the auditor, it is income that is needed to continue in business and cover its cost while to the auditee, it is a necessary cost it must incur in order to satisfy regulatory requirements and also show an independent assessment of its business. Also, they opine that audit fee is significant because the cost to companies represent the quality of audit services (the most expensive, the more quality *ceteris paribus*).

Audit fees mean all charges that the companies pay to the external auditors against the audit services and non-audit services, e.g. management advisory and consultants. Auditing fees consist mainly of the wages and benefits of office and field personnel, travel costs, and other costs necessary to the audit and related support activities. The fees equal the estimated cost of staff time and the actual cost of travel for those activities, plus margin of profit. In their discussion of Kinney and Libby (2002) suggest that the threat to auditor independence could be as strong when the audit fee is large. Several studies that have empirically examined the relationship between audit quality and audit fee; Francis and Simon (1987) assume that audit services are quality-differentiated and that in a competitive market, quality differences are reflected in fees.

However, since audit fees have a number of determinants, they are a noisy proxy for quality. A previous study which examines whether, in an Australian setting, the existence of an audit committee, audit committee characteristics and the use of internal audit are associated with a higher level of audit fees concludes that a higher audit fee implies higher audit quality (Francis, 2004). Several authors argued that managers and entrepreneurs are willing to pay higher audit fees to receive what are perceived to be higher quality audits.

For example, Beatty (1993) reports greater compensation to Big 6 auditors than to non-Big 6 auditors in the IPO market. Numerous other audit fee studies, including Francis and Simon (1987) and Craswell, Francis and Taylor (1995) document a relationship between auditor prestige or reputation and audit fees. Craswell, Francis, and Taylor not only report an audit fee premium for the Big 8 name, but also an audit fee premium for audit specialization within the Big 8. Chaney, Jeter and Shivakumar (2002), were unable to find a significant Big 5 audit premium. Although there is some evidence that audit fees do not contain this premium, it appears that economic agents are willing to bear some increase in cost for what are perceived to be higher quality audits. Beatty (1989) suggests that the auditors performed a certification role for IPOs by, in effect, staking their reputation on the quality of the audit. Firms can buy this certification by selecting an auditor with high reputational capital who will charge a higher audit fee. Results of Sharma, (2003) and Goodwin and Kent (2006) were indicating that higher audit fees are associated with more frequent audit committee meetings. Committee independence and accounting and finance expertise are not significantly associated with audit fees. Simon and Francis (1988) suggest that several studies of the U.S. market for audit services have found evidence of a large audit-firm fee premium. This premium has been interpreted as an indication that large audit firms (typically defined as the "Big five," now the "Big four"), considered as a

group, receive higher fees than non-Big firms and thus are perceived to provide higher quality audit services. A common interpretation has been that there is a strong relationship between audit firm size and audit quality. That is, the observed big fee premium has been interpreted as evidence that this group of large auditors, as a whole, is perceived to provide higher quality audits.

Additionally, increasing audit efforts are determined by the audit firm's likelihood of incurring in future losses due to the engagement with that specific client (e.g., Bell et al., 2008; Choi & Jeter, 2008; Simunic & Stein, 1996). Those losses include litigation costs, sanctions from regulatory entities and image and reputation damages. There is empirical evidence that when there is a perception of high levels of liability exposure, audit firms adjust their required fees (Simunic & Stein, 1996); audit fees are influenced by the litigation environment (i.e. the legal regimes of different countries) where the audit firms operate on (Choi & Jeter, 2008); in the face of increasing litigation costs, big audit firms have avoided engagements with risky clients (Jones & Raghunandan, 1998). Pratt and Stice (1994) also found evidence of the existence of an additional premium (relative to increasing level of work) to cover litigation costs.

Audit Firm Size

The most common and well researched indicator of audit characteristics is whether an audit firm is one of the "Big 4" (DeFond & Francis, 2005; Carcello, 2005). The motivation for such a hypothesis varies from study to study. DeAngelo (1981) suggests that since these larger audit firms are not as financially dependent on the fees from any one client, they are less likely to be subject to pressure from clients to "look the other way" in the event of discovering accounting irregularities.

Moreover, it is argued that the Big 4 auditors have more to lose should a scandal arise, in that their brand names and reputations are more valuable compared to smaller audit firms. Previous research has shown that these large, international audit firms garner a significant fee premium over their smaller counterparts (Palmrose, 1986; Ireland & Lennox, 2002). This premium can be attributed to higher billing rates (for superior expertise), additional audit hours (reflecting additional efforts) or simply a reputation effect. In any case, prior research has deemed the fee premium indicative of higher audit quality compared to non-Big 4 firms.

Clients of the Big 4 firms have been shown to have higher accrual quality, typically measured as lower absolute values of discretionary accruals (Becker, DeFond, Jiambalvo & Subramanyam, 1998; Francis, Maydew & Sparks, 1999), and are less likely to manage earnings, as evidenced by income increasing accruals, small positive earnings changes, or meeting/beating analyst expectations (Becker, DeFond, Jiambalvo & Subramanyam, 1998; Nelson, Elliott & Tarpley, 2002). In addition, the stock market response to an earnings surprise is greater (Teoh & Wong, 1993) and analyst forecasts are, on average, more accurate for clients of Big 4 firms (Behn, Choi & Kang, 2008) suggesting that higher audit quality contributes to more informative earnings disclosures and better informed analysts.

Tate (2001) finds Big 5 auditors' report more noncompliance with federal regulations in the form of findings and questioned costs than non-Big 5 auditors. However, after controlling for the number and extent of errors identified by the auditor, she finds that big size auditors are less likely than non-big size auditors to qualify their report on an organization's compliance with federal regulations. She also finds that size auditors are less likely than non-Big 5 auditors to report significant deficiencies in internal control.

Prior research has shown that audit quality is positively associated with audit firm size (e.g., Krishnan & Schauer, 2000; Lennox, 1999; Colbert & Murray, 1998). However, there is other evidence showing that size may not always be positively related to audit quality and that the largest accounting firms may not always provide higher quality audits than do small accounting firms (Tate, 2001; Lam & Chang, 1994).

This therefore, relate with financial reporting quality, in that audit quality is the basis for adequate and proper audit work capable of detecting and revealing errors and misstatements in the financial reports. Large audit firms are assumed to perform more powerful tests. As a consequence, larger audit firms are more likely to be associated with more precise information than are smaller audit firms, all else being equal (Beatty, 1989; Titman & Trueman, 1986).

Analytical research has suggested that audit firm size and audit quality are positively related. For example, DeAngelo (1981) proposes that larger firms provide higher-quality audits because larger audit firms have fewer incentives to compromise their standards to ensure retention of clients in comparison with smaller firms. Similarly, Dopuch and Simunic (1982) argue that audit quality is a function of the number and extent of audit procedures performed by the auditor and that larger firms have more resources with which to conduct tests.

Moore and Scott (1989) demonstrate analytically that audit firm size and the extent of audit work are positively related. Further, if audit firm size and audit quality are positively related, one would expect to find larger differences between forecasted and reported incomes for companies audited by large auditors than for companies audited by small auditors, after controlling for client characteristics such as risk. Assessment of auditor size is important for several reasons. First, if auditor size is a useful surrogate for auditor quality, the public has available a readily

observable quality indicator. This can be quite helpful given that the underlying quality of audits and other accounting services are difficult to determine, even after they have been performed. Second, the existence of this relationship could help shape public policy debates. For example, documentation of a positive relationship between auditor quality and auditor size could help justify different peer review or continuing professional education requirements for audit firms of different sizes.

Additionally, the structure of liability insurance premiums could also be affected if audit quality is related to firm size. Additionally, many prior studies of the quality-size relationship have examined relatively large audit firms by using the Big Eight-non-Big Eight dichotomies within the setting of publicly held company audits (Palmrose, 1988). These studies do not assess if the quality-size relationship holds at the level of small audit firms. Although the studies by Deis and Giroux (1992, 1996) and Colbert and O'Keefe (1995) used samples of firms that are predominantly local or regional, each of those studies used data from only a single state. Previous research links auditor independence, a key element of audit quality, to auditor size and consequently suggests a positive association between audit quality and auditor size. Moreover, by using the dichotomy approach (Big four/non- Big four); numerous studies in many countries have found that the largest audit firms with international reputations earn fee premiums due to their perceived higher quality (Colbert & Murray, 1998; Krishnan & Schauer, 2000). Given the difficulties in observing audit quality, the obvious reason for this relatively substantial interest in the issue is that if auditor size correlates sufficiently with auditor quality, it provides the public with an observable surrogate for auditor quality.

On the other hand, if audit clients perceive that quality is related to auditor size, auditor size *per se* should affect the performance of the firms in the market. In addition to auditor remuneration,

firm size might have an effect on the firm cost structure, for example through liability insurance premiums. Thus, it is not surprising that the debate about the relationship between audit firm size and auditor quality still goes on: While many researchers argue that audit quality relates to audit firm size, regulators have typically contended that quality is independent of the size of an auditor (Krishnan & Schauer, 2000). This debate over the relationship between auditor size and quality, however, has concentrated mainly on the claim that the largest auditing firms with international reputations are above average quality suppliers of audits, whereas little is said about product differentiation among other audit firms.

2.1.3 Concept of Financial Performance

Financial performance has implications on organization's health and ultimately its survival. The Firms' management effectiveness and efficiency in making use of company's resources is highly reflected by high financial performance and this in turn contributes to the country's economy at large (Naser & Mokhtar, 2004). Company performance is very essential to management and other stakeholders such as shareholders, debt holders and the government as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law and conforming to the morale and ethic (Iswatia & Anshoria, 2007).

Financial performance which assesses the fulfilment of a firm's economic goals has long being an issue of interest in managerial researches. Firm financial performance relates to the various subjective measures of how well a firm can use its given assets from primary mode of operation to generate profit. The concept of firm performance implies measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on

investment, return on assets, and net profit after tax etc. Performance differences in firms are often the subject of academic research and government analysis (Verreynne & Meyer, 2008). Kothari (2001) defined the value of a firm as the present value of the expected future cash flows after adjusting for risk at an appropriate rate of return. According to Eyenubo (2013), it is the success in meeting pre-defined objectives, targets and goal within a specified time target.

Firm performance is studied and measured by different researchers (Shah et al., 2011; Matolcsy & Wright, 2011; Yasser et al., 2011) using different measures. Matolcsy and Wright (2011) measured firm performance by ROA (Return on Assets= EBIT / Average total Assets - in book value -), ROE (Return on Equity=net profit / equity - in book value -), ROE refers to the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Each insurance firm's ROE has been obtained for its annual reports. ROE is expressed as a percentage and calculated as: $\text{Net Income} / \text{Shareholder's Equity} \text{ multiply by } 100$, Net income is for the full fiscal year, before any dividends are paid to common stockholders but after dividends are paid to preferred stock.

Shareholder's equity does not include preferred shares. Change in market value of equity, Change in market value of equity, adjusted for dividends and risk). Yasser et al. (2011) used return on equity (ROE). ROE refers to the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Each insurance firm's ROE has been obtained for its annual reports. ROE is expressed as a percentage and calculated as: $\text{Net Income} / \text{Shareholder's Equity} * 100$ Net income is for the full fiscal year,

before any dividends are paid to common stockholders but after dividends are paid to preferred stock.

Shareholder's equity does not include preferred shares, and profit margin (PM) for the measurement of firm performance. Market based measures of companies' performance were done by Shah et al. (2011) by Market value of equity divided by book value of equity and Tobin's Q (market value of equity + book value of debt/total of assets - in book value -), whereas financial reporting perspective was measured by ROE and Return on investment (net result + interest) / (equity +total debt). Bhagat and Black (1999) measured dependent variable firm performance by Tobin's Q, Return on assets (Operating income/Assets), Turnover ratio (Sales/Assets), Operating margin (Operating income/Sales), Sales per employee and also by Growth of Assets, Sales, Operating income, Employees and Cash flows. The study was focus on those measures that are strategically important for the success of the company. In that direction, the study would measure the financial performance of the companies by looking at profitability (Return on Assets, Return on Equity and Dividend Yield).

One of the widely used accounting based measures of corporate performance in literature is Return on Asset (ROA) (Finkelstein & D'Aveni 1994; Weir & Laing, 1999). It assesses the effectiveness of capital employed and provides a basis in which investors can measure the earnings generated by the firm from its investment in capital assets (Epps & Cereola, 2008). The return on assets (ROA) is a measure which shows the amount of earnings that have been generated from invested capital. It is an indication of the number of kobo earned on each naira worth of assets. It allows users, stakeholders and monitoring agencies to assess how well a firm's corporate governance mechanism is in securing and motivating efficient management of the firm (Chagbadari, 2011). This study examines one key accounting measures of firms' financial

performance which is Return on Assets. The ROA is utilized in this study because it is simple to use, easy to understand, and it is based on audited figures. ROA is the ratio of annual net income to total assets of a business during a financial year. It is measured thus:

$$\text{ROA} = \text{Annual Net Income} / \text{Total Assets}.$$

2.2 Empirical Review

2.2.1 Audit Committee Number of Meetings and Financial Performance

The empirical result of the relationship between audit committee number of meetings and firm financial performance is ambiguous.

Thoopsamut and Jaikengkit (2009) examined the relationship between audit committee characteristics, audit firm size and earnings management in quarterly financial reports of companies listed in the Stock Exchange of Thailand. The data collected from financial documentation were analyzed by using multiple regression analysis at 95% confidence level. A negative relation was found between the average tenure of audit committees and quarterly earnings management. However, the number of meetings of audit committees and audit firm size are not significantly related to quarterly earnings management. These results suggest that the average tenure of audit committees affects the quality of financial reports. The study was carried out in Thailand while this current study is in Nigerian, also, this current study will be updated to 2016, and this makes this study current.

Baxter and Cotter (2009) examined whether the existence of an audit committee is associated with earnings quality, tests of this association do not differentiate between whether (i) the audit committee impacts earnings quality or (ii) firms with high-quality earnings are more likely to form an audit committee. The study found that the formation of an audit committee reduces

intentional earnings management, but not accrual estimation errors. In addition, they found some differences in the associations between audit committee accounting expertise and the earnings quality measures and other audit committee characteristics examined are not significantly related to any earnings quality measures. The study did not capture financial performance as its dependent variable while this current study utilized return on asset to proxy its dependent variable.

Hamdan, Sarea and Reyad (2012) found the audit committee characteristics examined are not significantly related to accounting conservatism excluding the financial experience of audit committee, which found to have a positive relationship to conservatism. While the study dependent variable is accounting conservatism, this present study focuses on financial performance.

Piotr (2012) presented survey research results of audit committee activity in Polish public stock companies quoted on the Warsaw Stock Exchange (WSE). The purpose of this study is to present the audit committee practice in Poland after 2009. The study showed that the audit committee practice is still the most problematic issue of transitional Polish corporate governance rules. The survey revealed that the corporate needs and its implementation, and communication with listed companies leave a lot of room for improvement. The limitation of this study is its use of survey design which is not empirical.

Yahya, Abdullah, Faudziah and Ebrahim (2012) examined the relationship between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the Saudi companies listed in the Saudi stock exchange in 2010, excluding financial companies. The statistical results of the study were not in line with the agency theory that board of directors and audit committee might mitigate agency problems

leading to reduced agency cost by aligning the interests of controlling owners with those of the company. While audit Committee size was found to have a significant relationship with firm performance (but in the opposite direction to expectation), other hypothesized variables, the proportion of non-executive directors, CEO Duality, Board Size, Audit Committee Independence, audit committee meeting were found to be a priori compliant but insignificantly related to firm performance measure except the direction of the proportion of non-executive directors which contradicted the expectations. This study limitation is the exclusion of financial companies and its relevance is only in Saudi.

Chechet, Yancy and Akanet (2013) examined the relationship between the internal corporate governance mechanisms related to the board of directors, the audit committee characteristics and the performance of listed DMBs in Nigeria. The study covers the period of seven years (2005-2011), with the population of seventeen (17), a sample of fourteen (14) DMBs. Multiple regression was employed as a tool of analysis on the data which are extracted from the annual reports of the sampled DMBs. The results indicated that board characteristics and audit committee characteristics are essential factors of internal control mechanism sequel to the fact that both board and audit committee characteristics have significantly influenced DMBs performance during the period of the study Board composition, Audit committee activities/meetings and Audit committee independence have significant and positive impact on performance while Board size has a negative but significant impact on performance of DMBs. This study is limited only to Deposit money banks and is not applicable to the insurance industry.

Ebrahim, Faudziah and Abdullah (2014) examined the relationship between audit committee characteristics and firm performance in Oman. It also attempts to explore the moderating effect

of the board diversity on the association between audit committee characteristics and firm performance and to fill the gap in the existing literature that examined the relationship between corporate governance and firm performance in the developing countries. The data is comprised of 162 non-financial companies listed on Muscat Security Market during the period of 2011 and 2012. The study revealed a positive association between audit committee size and audit committee meeting to firm performance but not significant. On the other hand, an insignificant relationship was found between audit committee independence and firm performance. Moreover, the study revealed that the foreign members of the board have a significant moderating effect on the relationship between audit committee independence and firm performance. This study applicability is restricted to Oman and the study period is too short to make a short term plan.

Okolie (2014) evaluated whether corporate governance principles affect audit committee functions by ensuring that financial statements reflect the true financial position of companies. Data were analyzed using correlation analysis. Spearman's correlation was calculated between the average scores on corporate governance variables and audit committee variables. The study showed that corporate governance principles affect audit committee functions by ensuring that financial statements reflect the true financial position of companies. The study did not capture audit characteristics and financial performance in which this study captures.

Laith (2015) examined the role of audit committee and external audit in enhancing companies' profitability in Jordan context to provide empirical evidence on variables of the study especially after the corporate governance application became mandatory since 2009. The study used industrial sector, comprising a total population of 91 companies, out of which only 69 companies were selected and used for the study for the period 2009-2014. Multiple regressions were used to analyze the data and the results showed positive relationships between audit committee meeting,

audit committee size and companies profitability, while no significant relationship was evidenced on audit committee composition, audit committee members literacy, audit quality and companies profitability. The study is limited to Jordan and cannot be applied to Nigeria.

Merawati (2015) conducted his study on 11 insurance and reinsurance companies listed in the Indonesian Stock Exchange in 2012, the results showed that the Audit Committee, the Internal Audit, the External Audit and the corporate financial soundness, have influence on the company's profitability. The study is relevant to insurance companies in Indonesia, the study cannot be used for policy making in Nigeria. Vuko, Maretić and Čular (2015) analyzed the role and effectiveness of audit committee of corporate governance on credit institutions performance in Croatia. sample consisted of 78 credit institutions listed in Zagreb Stock Exchange, from 2007 to 2012 was collected and efficiency index of audit committee was used. The study found that audit committees of credit institutions have medium efficiency, and there is a significant difference in audit committee effectiveness in observed period, in addition to a significant difference between level of audit committee effectiveness and audit firm type. However, there is no positive relationship between audit committee effectiveness and credit institution performance. The study is restricted to Indonesia and cannot be used in Nigeria.

Narwal and Jindal (2015) examined the impact of corporate governance on the profitability of Indian textile sectors. The study collected data from annual reports of textiles companies for the period of five years ranging from 2009 to 2014. The profitability was taken as dependent variable while board size, audit committee members, board meetings, non-executive directors, directors remunerations were used as the independent variables. The data they used were analyzed using correlation and OLS regression model. Finally, they found a strong positive association between director's remuneration and profitability, but negative association between

audit committee members and profitability. The study is restricted to Indian and is not applicable to Nigeria.

Salloum, Azzi and Gebrayel (2014) assessed the impact of audit committee characteristics on Lebanese financially distressed and non-distressed banks. The study examined four characteristics of the audit committee (i.e. size, composition, frequency of meeting and financial expertise). It was found that the distressed banks have a significant negative relation with the meeting frequency of the audit committee and that meeting frequency plays an important role to ensure audit committee effectiveness and help audit committee members to ensure the integrity of financial reporting, to provide better monitoring and review operations effectively. The study is limited to Lebanese and cannot be used in Nigeria.

Fulop (2013) analyzed the correlations between the audit committee and profitability. The study used 25 companies listed on Berlin Stock Exchange to test relationship; the study found that the role of the audit committee is crucial. The study is limited to Berlin and cannot be applied to Nigeria.

Ismail, Iskandar and Rahmat (2008) investigated the relationship between audit committee and external audit with quality of financial reporting for 45 companies listed on the Bursa Malaysia. The study found that only the audit committee with multiple directorship members is positively related to the quality of reporting, but found no relationship between the audit quality and quality of corporate reporting. The study is limited to Malaysia and cannot be used in making policy in Nigeria.

Mrwan, Aiman and Shehata (2014) examined the relationship between the audit committee characteristics and the firm performance represented by the ROA, ROE and Tobin's Q. The study adopted GLS random effect regression over the nine year to test for the existence of the

proposed relationship between board characteristics and firm performance. It was found that there is a positive relationship between the proportion of independent directors on the board and firm financial performance as measured by ROE. Board meetings results showed a positive significant relationship with ROE, while CEO duality showed a significant positive relationship with ROE, and the director ownership is positively associated with firm performance, but the relation is not significant. The study used ROE while this study utilized ROA to proxy financial performance.

Abdulkadir (2012) examined whether the formation of audit committees and its characteristics are associated with improved financial reporting quality. The sample of the study is the Nigerian listed companies prior to and after the introduction of mandatory audit committee requirements in The Code of Corporate Governance in 2003. The researcher used an archival data from the annual reports, NSE and SBA Interactive. The model by Dechow and Dichev (2002) was used to measure the earnings quality as proxy for financial reporting quality. The result indicated that there was some evidence that earnings quality significantly reduced in the years after audit committee formation, thus providing some support for the notion that the formation of the audit committee improved financial reporting quality. Second finding showed that there was a weak association between the characteristics of audit committee and improved financial reporting quality. The audit committee independence and expertise are found to significantly associate with improved financial reporting quality. Audit committee meets 4 to 5 times a year and audit committee size consists of 4 members. The result also showed that 70% of the sample firms employed Non-Big 4 auditors. In a nutshell, all these findings provided evidence on the mandatory audit committee requirement under the NSE listing rules on how the companies

responded towards The Code. The study used financial reporting quality as its dependent variable while this current study used financial performance as its dependent variable.

Aldamen, Duncan, Kelly, McNamara and Nagel (2011) conducted a study on the effect of audit committee characteristics and firm performance during the global financial crisis. The study used logit model analysis with a sample of 120 firms listed on the S&P300 during the period of 2008 and 2009. The study revealed that smaller audit committees with more experience and financial expertise are more likely to be associated with positive firm performance in the market. It also found that longer serving chairs of audit committees negatively impacts accounting performance. However, accounting performance is positively impacted where audit committees include block holder representation, the chair of the board, whose members have more external directorships and whose chair has more years of managerial experience. The study period is too short to make a meaningful decision.

Kajola (2008) examined the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity and profit margin), using a sample of twenty Nigerian listed firms between 2000 and 2006. Panel methodology and OLS were used as methods of estimation, the results provided evidence of a positive significant relationship between ROE and board size as well as chief executive status. The implication of this is that the board size should be limited to a sizeable limit and that the posts of the chief executive and the board chair should be occupied by different persons. The results further revealed a positive significant relationship between profit margin and chief executive status. The study, however, could not provide a significant relationship between the two performance measures and board composition and audit committee. The population size is too small to provide a general result.

Muganda and Umulkher (2015) examined the impact of corporate governance mechanisms (audit committee size, board gender diversity and board size) on banks' profitability based on the annual reports of forty two banks in Kenya in the period 2014. The study controls for the effect of bank size and capital of the banks. The study utilized a correlational research design and was based on the agency theory. Using multiple regression as a method of estimation, the results revealed that audit committee size, board gender diversity and bank capital have no significant effect on bank profitability in the selected sample. The regression results indicated that board size negatively influences financial performance; whereas bank size is positively associated with financial performance. The study suggests that banks with effective corporate governance mechanisms may improve financial performance depending on the measure used although not all corporate governance mechanisms are significant. The study is significant because it can aid the policy makers in the formulation of policies, which can be effectively implemented for better and easier regulation of banks. The findings of the study have significant managerial and theoretical implications. The study is limited to Kenya and cannot be applied to Nigeria.

Babatunde and Olaniran (2009) using panel data based on a sample of 62 firms listed on the Nigerian Stock Exchange for a period of five years from 2002 to 2006 analyzed the effects of internal and external governance mechanism on performance of corporate firms in Nigeria. The researchers found a positive and significant relationship between board size, leverage and the dependent variable Tobin's Q. However, the study revealed an inverse relationship between director's shareholdings, firm size, independence of the audit committee and the numbers of outside directors on board. When the return on asset was used as the dependent variable significant positive relationship of board size, block holders and leverage with return on asset was found. However, there was a negative relationship between the number of outside directors

on board, director's shareholdings, independence of the audit committee, firm size and the return on asset. In addition, the study found that the measure of performance matters for analysis of corporate governance studies. In some cases different result were obtained based on the measure used. The study period is too short to make a short term decision; also the sample size is too small to make generalized findings.

Hussaini and Gugong (2015) investigated the relationship between Audit Committee characteristics and earnings quality of listed food and beverages Firms in Nigeria. The study covered the period of eight years from 2007 to 2014. Data for the study were extracted from the Firms' annual reports and accounts. After running the OLS regression, a robustness test was conducted for validity of statistical inferences. The dependent variable was generated using two steps regression in order to determine the discretionary accrual of the sample firms. Multiple regression was employed to run the data of the study using OLS. The results from the analysis revealed significant association between audit committee characteristics and earnings quality of the firms. While audit committee size and committees' financial expertise showed inverse relationship with earnings management, committee's independence and frequency of meetings are positively and significantly related to earnings management. The study is only applicable to listed Food and Beverages Firms in Nigeria.

Ojeka, Iyoha and Obigbemi (2014) explored the influence of audit committee effectiveness on firm's performance using four characteristics: independence, financial expertise, size, and meetings of the audit committee. The performance measures were ROE, ROA and ROCE. Twenty five (25) manufacturing firms were selected and from which data were collected for the period 2004 to 2011. Empirical analysis was carried out using regression and correlation. The result of the analysis showed a positive significant relationship between independence and

financial expertise of the audit committee and ROA, ROE and ROCE. However, the size and meetings of audit committee showed no significant relationship with all performance variables.

The study is limited to the manufacturing sector alone; it cannot be applied to other sectors.

Jenny and Pamela (2006) examined whether the existence of an audit committee, audit committee characteristics and the use of internal audit are associated with higher external audit fees. Higher audit fees imply increased audit testing and higher audit quality. The study found that the existence of an audit committee, more frequent committee meetings and increased use of internal audit are related to higher audit fees. The expertise of audit committee members is associated with higher audit fees when meeting frequency and independence are low. These findings are consistent with an increased demand for higher quality auditing by audit committees, and by firms that make greater use of internal audit. The study used audit fees as its dependent variable, while this current study utilized financial performance to measure its dependent variable.

Allam, Adel and Sameh (2013) investigated the relationship between audit committee characteristics (namely: audit committee size, financial experience, and audit committee independence) on performance, which includes financial, operating and stock performance. The study sample contained 106 corporations from the financial sector listed in the Amman Stock Exchange Market with a total of 212 observations during the 2008-2009 sample years. The results showed that the audit committee has an impact on financial and stock performance but does not have an effect on operating performance. The study is only useful in Jordan and cannot be used for policy implication in Nigeria because of difference in political and socio-economic environment.

Richard (2014) examined the effect of audit committee characteristics on firm performance among listed firms in Nairobi securities exchange, Kenya, to establish the effect of audit committee size on firm performance and realize other objectives of the study. Agency theory and institutional theory were used while an explanatory design was adopted. The study was conducted on firms listed on the Nairobi Securities Exchange for the period of 2006 to 2011. The study utilized data from 46 companies as the other 14 companies had either been recently listed or had inconsistently traded in the NSE. Multiple Regressions were used to analyze the data. Research findings showed that audit committee experience, committee gender diversity, audit committee size and number of independent auditors has a significant effect on firm performance. The study is only useful in Kenya and cannot be used for policy making in Nigeria, also, the study stopped at 2011, there is need to examine the current effect of audit committee and auditor characteristics on financial performance in Nigeria.

2.2.2 Audit Committee Independence and Financial Performance

Chan and Li (2008) found that independence of the audit committee positively impacts the firm performance as measured by Tobin's Q. The study was carried out in China and cannot be utilized in Nigeria for policy implication. Similarly, Ilona (2008) showed that there is a positive relationship between audit committee independence and firm performance as measured by ROA. The study is an old study and there is need to determine the current trend of audit committee and auditor characteristics on financial performance. The Hamdan, Sarea and Reyad (2013) examined the relationship between audit committee independence and firm performance of 106 financial firms listed on the Amman Stock Exchange Market from 2008 to 2009, the study found that audit committee independence has a significant influence on firm performance. The study is

only useful in Jordan and cannot be used for policy implication in Nigeria because of difference in political and socio-economic environment.

Triki and Bouaziz (2012) investigated the effect of audit committee's characteristics on financial performance, measured by ROA and ROE, of a sample of 26 Tunisian firms listed on the Tunis Stock Exchange from 2007 to 2010. The results showed the essential role of audit committee in protecting the interests of shareholders, as well as the effect of the audit committee's characteristics on the financial performance of Tunisian companies. This study is limited to Tunisia only and cannot be applied to Nigeria.

Tornyeva and Wereko (2012) investigated the relationship between corporate governance and the financial performance of insurance companies from 2005 to 2009 in Ghana. The study found that audit committee independence is positively associated with the financial performance of insurance companies in Ghana. The limitation of this study is that it only investigated one proxy of corporate governance and did not capture auditor characteristics; also it is only applicable in Ghana and cannot be applied in Nigeria. Using a sample of 20 non-financial listed companies in Nigeria, Kajola (2008) study did not find a significant association between audit committee composition and firm performance. The study also found that having a majority of independent non-executive directors in the audit committee does not have a significant influence on firm performance. This study limitation is its reliance on non financial institution, while the financial institution is neglected.

Ghabayen (2012) investigated the relationship between audit committee composition and firm performance using the annual reports of 102 listed non-financial firms in the Saudi market in 2011. The results revealed that audit committee composition has no effect on firm performance

in the selected sample. This study is limited to non financial firms and cannot be applied on the financial firms; also the study is only applicable in Saudi market.

Abdullah, Qaiser, Ashikur, Ananda and Thurai (2014) examined the association between audit committee characteristics and firm performance among public listed firms in Malaysia. The study employed EVA as performance measurement tool. The sample is 75 firm year observations and covered fiscal years 2008-2010. The study found that audit committee independence is positively associated with firm performance while audit quality is negatively associated in Malaysia. Overall, audit committee characteristics have a positive effect on firm performance and the results suggest that Big 4 firms have a negative impact on value based measure in Malaysia. The study is limited to Malaysia and cannot be utilized in Nigeria.

2.2.3 Audit Fee and Financial Performance

Krishnan and Schauer (2000) examined the association between auditor size and audit quality for a sample of not-for-profit entities. Their audit quality measure was based on the entity's compliance with GAAP reporting requirements. Auditors were divided into three classes: Big Six, large non-Big Six and small non-Big Six. They found that compliance increased as one moved from the small non-Big Six to large non-Big Six and from the large non-Big six to Big Six. They also tested the auditor size–audit quality relation with a more continuous measure of audit firm size: the number of professionals employed by audit firm. This study is an old study, there is need to examine the current effect of auditor size on financial performance of listed insurance companies in Nigeria.

Moutinho (2012) investigated the relationship between audit fees and firm performance. Using a sample of U.S. publicly traded, non-financial firms covering the period from 2000 to 2008, a fixed effects model is presented to estimate firm operating performance. The model included

standard control variables, such as size, leverage, sales growth and research and development intensity. In addition, measures of corporate governance were introduced. This study provided empirical evidence on the relationship between firm performance and audit fees. Specifically, increases (decreases) in operating performance are connected with decreases (increases) in audit fees. The study was carried out in USA, therefore the result of the study is not applicable to Nigeria. The study is also an old study the need to reexamination.

Hay (2012) reported significant associations between audit fees and the following client attributes such as size, complexity, risk, profitability, leverage, liquidity, internal control, governance and industry. This evidence indicated, in particular the influence of some measures of the client's financial condition on audit fees' determination. The study was carried out in Switzerland and the result has no policy implication in Nigeria due to difference in environment.

Zare, Khedri and Farzanfa (2013) examined the relationship between audit firm size and profitability. The study used 97 companies' annual reports to test the study hypotheses; the study found a negative and significant relation between audit firm size institution and company's profitability. The study was not carried out in Nigeria and could not be used for policy making in Nigeria.

Hamideh, Mahmood and Abbas (2013) examined the impact of auditors' characteristics including auditor tenure and expertise on the audit quality. Discretionary accruals estimated by the modified Jones model were used to determine the audit quality. The population was composed of the whole non-financial firms listed on the Tehran Stock Exchange. The sample firms include 91 listed firms covering a period from 2007 to 2011 which were selected by using filtering technique. To test the hypotheses, the multivariate regression models based on panel

data approach were utilized. The findings revealed that there is no significant relationship between auditors tenure and audit quality. Furthermore, the significant association between audit expertise and audit quality was confirmed. The study failed to use audit fee as one of the proxy to measure audit characteristics and the study is limited to Iran.

Dunn, Mayhew and Morsfield (2000) found a positive association between industry-specialized audit firms and analysts' rankings of disclosure quality in unregulated industries, but no relation in regulated industries. Wright and Wright (1997) found that significant experience in the retailing industry contributes to increased detection of errors of clients in the retail industry. Solomon, Shields and Whittington (1999) found that auditors who are specialists exhibit greater knowledge of non-error frequency relative to the non-specialists. Jenkins, Kane and Velury (2006) investigated the impact of expert auditors on declining the earnings quality in 1990s. The findings revealed the significant increase in the level of the discretionary accruals and the significant decrease in the earnings response coefficient. However, increasing discretionary accruals and reducing the earnings response coefficient is at a lower level for those companies using the auditors specialized in industry than the other companies without the specialized auditors. These studies are all foreign studies that have no relevance to Nigeria environment.

Almutairi, Kimberly and Skantz (2009) tested the association of the auditors' tenure and their expertise with the information asymmetry in a sample constituted of 3169 firms during a period covering 1992-2001 in United States of America. The study found that the information asymmetry and auditors' expertise are negatively associated. Furthermore, the study showed that those firms audited by the specialized auditors disclose more information and consequently have higher audit qualities. The study is an old study and cannot be used to proffer solution to the current situation.

Aronmwan and Okafor (2014) investigated auditee characteristics and audit fees in Nigerian quoted companies. Data for the study was gotten from the annual reports of 35 companies for a 6 year period (2005-2010). The longitudinal survey research design was employed in the study, while the multivariate regression model was used to analyse the relationship between audit fees and audit characteristics. The study found that at the 5% significance level, audit size has a significant positive relationship with audit fees, client profitability has an insignificant negative relationship with audit fees, the auditee's choice of auditor has a significant negative association with audit fees, industry type has an insignificant positive relationship with audit fees, and client's business risk has a positive relationship with audit fees. The study did not examine financial performance as its dependent variable, this current study utilizes financial performance as its dependent variable.

Ilaboya and Ohiokha (2014) examined the impact of audit firms' characteristics on audit quality. The study proxied the dependent variable (audit quality) using the usual dichotomous variable of 1 if big 4 audit firm and 0 if otherwise. Data for the study were sourced from the financial statements of 18 food and beverage companies listed on the Nigerian Stock Exchange market within the period of 2007 to 2012. The multivariate regression technique with emphasis on Logit and Probit method was used to estimate their model for the study. The findings showed that there is a positive relationship between firm size, board independence and audit quality whereas there is a negative relationship between auditor's independence, audit firm size, audit tenure and audit quality. The study suggests the need for the Nigerian Financial Reporting Council and other regulatory bodies in line with best practices to look critically into the three years professional requirements for auditors. The study centered on food and beverage companies listed on the Nigerian Stock Exchange market while this current study is on listed insurance companies.

Abedalqader, Ibrahim and Baker (2010) investigated the audit quality through discretionary accruals and two factors specifically defined for the auditor including auditors' tenure and firm size in Jordan listed firms during 2002 to 2006. Their results indicated that auditors' tenure is negatively associated with the audit quality. The study was carried out in Jordan and has little applicability to Nigeria environment. Mitra and Hossain (2010) considered the relationship between the auditors' expertise in the industry and the earnings quality in those firms with weak internal control. The study found that the earnings quality is higher for those companies with weaker internal control and with the auditors specialized in the industry. The study emphasize on earnings management as its dependent variable while this current study focuses on financial performance.

Numan and Willkens (2012) examined the relationship of competition pressure, audit quality and expertise in a strategic industry in USA for 12821 firms during a time period covering 2005 to 2008. The study disclosed that the audit quality is higher among those firms with more competitive pressure because more competition leads to less accrual. The relationship between the expertise of the auditor and the audit quality has been examined and found that these two items are positively associated. The study covered a short period of time and could not be used for long term planning.

Teitel and Machuga (2010) found that firms that hire high quality auditors have greater improvements in earnings quality after implementation of the Best Corporate Practices Code in Mexico than firms that hire low quality auditors. In Mexico, they believe that hiring high quality auditors may be a private contractual mechanism replacing their weak regulatory environment. The study was carried out in Mexico and has little impact on Nigeria as a result of difference in environment.

2.2.4 Audit Firm Size and Financial Performance

Krishnan and Schauer (2000) examined the association between auditor size and audit quality for a sample of not-for-profit entities. Their audit quality measure was based on the entity's compliance with GAAP reporting requirements. Auditors were divided into three classes: Big Six, large non-Big Six and small non-Big Six. They found that compliance increased as one moved from the small non-Big Six to large non-Big Six and from the large non-Big six to Big Six. They also tested the auditor size–audit quality relation with a more continuous measure of audit firm size: the number of professionals employed by audit firm. This study is an old study, there is need to examine the current effect of auditor size on financial performance of listed insurance companies in Nigeria.

Thoopsamut and Jaikengkit (2009) examined the relationship between audit committee characteristics, audit firm size and earnings management in quarterly financial reports of companies listed in the Stock Exchange of Thailand. The data collected from financial documentation were analyzed by using multiple regression analysis at 95% confidence level. A negative relation was found between the average tenure of audit committees and quarterly earnings management. However, the number of meetings of audit committees and audit firm size are not significantly related to quarterly earnings management. These results suggest that the average tenure of audit committees affects the quality of financial reports. The study was carried out in Thailand and has little implication on Nigeria situation.

Zare, Khedri and Farzanfa (2013) examined the relationship between audit firm size and profitability. They used 97 companies' annual reports to test the study hypotheses; the study found a negative and significant relation between audit firm size institution and company's

profitability. The study was not carried out in Nigeria and could not be used for policy making in Nigeria.

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2.3 Theoretical Framework

There are several theories that explain the relationship between audit committee, auditor characteristics and firms' performance in the literature of accounting. Few of these theories that are related to the study are stewardship theory, stakeholders' theory, agency theory, institutional theory, resource base theory and business ethics theory.

2.3.1 Agency Theory: view directors as the agent of the shareholders and therefore there is a need for them to act in the best interest of the shareholders. In this situation, sometimes the agent may not act in the best interest of the shareholders which result in an agency loss situation. The agency theory emphasizes the separation of ownership (principal) and managers (agent) in an organization, therefore it is believed that managers may sometimes pursue opportunistic

behaviour which may conflict with the goal of the owners (principals) and therefore the wealth of the shareholders. Advocates of the agency approach view the manager (directors) as an economic institution that will mitigate the problems and serves as the guardian to shareholders (Hermalin & Weisbach, 2000; Fama & Jensen, 1988).

This study adopts agency theory due to its relevance in resolving conflict that may arise between managers (agent) and shareholders (principal) of the companies. Agency theory relates to this study because the presence of audit committee and external auditors help to monitor the opportunistic tendencies of the management and this helps in safeguarding the resources of the organization.

2.3.2 Stewardship Theory: presents a contrasting view to agency theory. This theory asserts that, there will not be any major agency costs, since managers are naturally trustworthy (Donaldson 1990; Donaldson & Preston 1995, as cited in Aduda, Chogii & Magutu, 2013). According to the perspective of the 'stewardship theorists, managers are inherently trustworthy and faithful stewards of the corporate resources entrusted to them. Managers are good stewards of the organization and it is in their own interest to work to maximize corporate profits and shareholder returns. Therefore, proponents of stewardship theory argue that firm performance is linked to a majority of inside directors and combined leadership structure (Aduda, Chogii & Magutu, 2013). Stewardship theory sees a strong relationship between managers striving to successfully achieve the objectives of the firm, and the resulting satisfaction accorded to investors or owners, as well as other participants in the enterprise (Clarke, 2004). A virtuous circle is evident in stewardship theory, where stewards protect and maximize shareholder wealth through firm performance, which results in maximizing the stewards' utility. Therefore, by improved firm performance, the organization satisfies most groups that have an interest in the

organization. Thus, stewardship theory supports the need to combine the role of the chairman and CEO, and favour boards consisting of specialist executive directors rather than majority non-executive directors. This theory also relates to this study as audit committee and external auditors provide stewardship about the company to the shareholders thereby ensuring accountability in the operations of the business.

2.3.3 Stakeholder Theory: was embedded in the management discipline in 1970 and was gradually developed by Freeman in 1984, which incorporated corporate accountability to a broad range of stakeholders. Wheeler, Colbert and Freeman (2003) argued that the stakeholder theory is derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science. Donaldson and Preston (1995) opined that this theory focuses on managerial decision making and the interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate the others. Unlike agency theory in which the managers are working and serving the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve the like of the suppliers, employees and business partners. It argued that this group of network is important other than owner-manager-employee relationship as in agency theory (Wheeler, Colbert & Freeman, 2003).

On the other end, Sundaram and Inkpen (2004) contend that the stakeholder theory attempts to address the group of stakeholders that deserve and require the attention of the management. Since the purpose of all stakeholders in business is to obtain benefits, it has been argued that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders. Also, since the network of relationships with many groups can affect

decision-making processes, as the stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders (Babalola, 2014). Stakeholder theory is relevant to this study as the different stakeholders such as creditors, customers, suppliers, government, intending investors and financial analyst will find the reports provided by external auditors reliable for decision making and investment purpose.

2.4 Summary

Prior studies in this area of study were carried out in the area of food and beverages industry, manufacturing industry and banking industry, none of the study was carried out in the insurance industry also none of the study combined audit committee characteristics and auditor characteristics together as independent variables, this therefore provide the gap this study filled.

In the light of previous studies' results, this study came to highlight the role that the audit committee characteristics and external audit can play in the financial performance of listed insurance companies in Nigeria. The need for such study is to bridge the gap in literature since these relationships have not been researched extensively in Nigeria. Moreover Nigeria has witnessed many financial scandals that led many companies to go bankrupt such as Global Business, and Alshamyleh Gate. Thus, National Insurance Commission has issued the code of conduct in 2009 which requires listed insurance companies to form audit committees.

This study focuses on audit committee, auditor characteristics to determine their relationship with financial performance of listed insurance companies in Nigeria. To the best of knowledge of the researcher of this study, not much extant literature has looked at auditor characteristics and audit committee attributes jointly, to examine their relationship with firm performance. This study therefore fills this gap by examining how audit committee attributes and auditor characteristic influence financial performance of listed insurance companies in Nigeria.

This study is driven mainly by the agency theory. From an agency perspective, the composition of the audit committee is an important governance mechanism because the presence of outside directors provides a way of monitoring the actions of managers and of ensuring that shareholder interests are being safeguarded.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

For the purpose of this study, an Ex-post Facto research design is adopted. This study makes use of ex-post facto research design since the study relies heavily on secondary data that are quantitative in nature and these data had already been collected by the study population. This study also makes use of ex-post facto research design since it is based on past events in form of post mortem in view of the nature and purpose of the study.

3.2 Population, Sample and Sampling Technique

The population of this study is made up of the 25 Insurance Companies listed on the floor of the Nigerian Stock Exchange for the period of 2009 to 2015. This period is considered important due to the fact that the Corporate Governance Code for the Industry was established, and this period under review witnessed a lot of outcry for effective governance dynamics and sound financial reporting frameworks. As at 2015, 25 Insurance Companies were listed on the exchange.

Population of the Study

Company	Ticker	Sector
AFRICAN ALLIANCE INSURANCE COMPANY PLC	AFRINSURE	FINANCIAL SERVICES
AIICO INSURANCE PLC.	AIICO	FINANCIAL SERVICES
AXAMANSARD INSURANCE PLC	MANSARD	FINANCIAL SERVICES
CONSOLIDATED HALLMARK INSURANCE PLC	HMARKINS	FINANCIAL SERVICES
CORNERSTONE INSURANCE COMPANY PLC.	CORNERST	FINANCIAL SERVICES
EQUITY ASSURANCE PLC.	EQUITYASUR	FINANCIAL SERVICES
GOLDLINK INSURANCE PLC	GOLDINSURE	FINANCIAL SERVICES
GREAT NIGERIAN INSURANCE PLC	GNI	FINANCIAL SERVICES
GUINEA INSURANCE PLC.	GUINEAINS	FINANCIAL SERVICES
INTERNATIONAL ENERGY INSURANCE COMPANY PLC	INTENEGINS	FINANCIAL SERVICES
LASACO ASSURANCE PLC.	LASACO	FINANCIAL SERVICES
LAW UNION AND ROCK INS. PLC.	LAWUNION	FINANCIAL SERVICES
LINKAGE ASSURANCE PLC	LINKASSURE	FINANCIAL SERVICES
MUTUAL BENEFITS ASSURANCE PLC.	MBENEFIT	FINANCIAL SERVICES
N.E.M INSURANCE CO (NIG) PLC.	NEM	FINANCIAL SERVICES
NIGER INSURANCE CO. PLC.	NIGERINS	FINANCIAL SERVICES
PRESTIGE ASSURANCE CO. PLC.	PRESTIGE	FINANCIAL SERVICES
REGENCY ALLIANCE INSURANCE COMPANY PLC	REGALINS	FINANCIAL SERVICES
ROYAL EXCHANGE PLC.	ROYALEX	FINANCIAL SERVICES
SOVEREIGN TRUST INSURANCE PLC	SOVRENINS	FINANCIAL SERVICES
STANDARD ALLIANCE INSURANCE PLC.	STDINSURE	FINANCIAL SERVICES
STANDARD TRUST ASSURANCE PLC	STACO	FINANCIAL SERVICES
UNIVERSAL INSURANCE COMPANY PLC	UNIVINSURE	FINANCIAL SERVICES
VERITAS KAPITAL ASSURANCE PLC	VERITASKAP	FINANCIAL SERVICES
WAPIC INSURANCE PLC	WAPIC	FINANCIAL SERVICES

Source: Main Board of NSE, 2015

In this study statistical sampling is not used due to the small size of the population; however listed insurance companies studied are selected based on filter method using the criterion stated below:

- i. A firm must have been listed on the Nigerian stock Exchange all through the period under consideration that is, 31st December 2009 to 31st December 2015.

Given the criteria stated above only ten (10) listed insurance companies were able to fulfill this criterion, and were examined.

3.3 Methods of Data Collection

The data used in this study are secondary data derived from annual reports of the insurance companies that are listed on the Nigeria Stock Exchange.. The use of secondary data in this study is justified based on the fact that the study is based on the quantitative research methodology, and hence requires quantitative data.

3.4 Technique for Data Analysis and Model Specification

Panel regression techniques are used to analyze this study. This is because this study utilizes time series and cross sectional data. Hausman specification test was utilized to test whether the fixed or random effect model is appropriate.

Thus, the technique is consistent with the research design employed in the study and the objective of this study. This study specified an empirical model that incorporates the relationship between audit committee characteristics, auditor characteristics and financial performance. Return on Assets serves as proxy for financial performance while audit committee independence and audit committee number of meetings serve as proxies for audit committee characteristics. Audit fee and auditor status represented by the Big 4 serve as proxies for auditor characteristics.

In order to estimate the relationship between audit committee characteristics, auditor characteristics and financial performance. Return on Assets which is the dependent variable is modeled as a function of audit committee independence, audit committee number of meetings, audit fee and auditor status. Econometrically, this is specified as:

$$PER_{it} = \beta_0 + \beta_1 ACNM_{it} + \beta_2 AUDI_{it} + \beta_3 AUDF_{it} + \beta_4 AUDS_{it} + e_{it} \text{ Where;}$$

PER = Financial Performance

ACNM = Audit Committee Number of Meetings

AUDI= Audit Committee Independence

AUDF = Audit fee

AUDS= Auditor Size

e = error term

i,t = firm i, time t

β_0 = Intercept of the regression line

β_1 - β_4 = Coefficient of the independent variables

Variables Measurement

Variables	Measurement	
Financial Performance (Proxy with ROA)	Ratio of net income to total assets	Dependent Variable
Audit committee number of meetings	The number of meeting held by the audit committee per year.	Independent Variable
Audit committee independence	The ratio of non-executives members to executive members of the audit committee.	Independent Variable
Audit Fee	The amount of money paid to external auditor for audit assurance at the end of the company's financial year.	Independent Variable
Audit Firm Size	Defined as the largest global audit firm (Deloitte, PWC, Ernst & Young and KPMG). Measured by dichotomy ('1' provided the company is being audited by any of the big4 audit firm and '0' otherwise).	Independent Variable

This study conducted robustness tests in order to improve the validity of all statistical inferences for the study. The tests include; multicollinearity test, heteroscedasticity test, and the test of serial correlation.

Multicollinearity Test: This is to check whether there is a high correlation between the independent variables which will mislead the result of the study. To substantiate the lack of multicollinearity between the independent variables, colinearity diagnostics are observed and that the Variance Inflation Factors (VIF) and Tolerance Values (TV) are indicators as to whether multicollinearity exists in the variables (Field, 2013; Gujarati & Porter, 2009)

The tolerance value and the variance inflation factor (VIF) are two advanced measures of assessing multicollinearity between the independent variables. Using Eview, the variance inflation factors and tolerance values are computed and when found to be consistently smaller than ten and one respectively it shows the absence of multicollinearity (Neter, Kutner, Nachtsheim & Wasserman, 1996).

Heteroscedasticity: This test is conducted to check whether the variability of error terms is constant or not. The presence of heteroscedasticity signifies that the variation of the residuals or error term is not constant which could affect the inferences in respect of beta coefficient, coefficient of determination (R^2) and F-statistic of the study. Eview 9 is used to check for the problem of heteroscedasticity in the analysis.

3.5 Justification of Methods

This study makes use of ex-post facto research design since this study relies heavily on secondary data that are quantitative in nature and these data had already been collected by the study population. Secondary source of data collection were utilized because Hair, Anderson, Tatham and Black (2007) assert that some of the advantages of using secondary data are that it saves time and cost of acquiring the information generated. It is helpful to acquire the actual state of phenomenon under study. Since this study will use panel data, which is quantitative in nature, hence, analyzing the data with the use of panel regression analysis is the best method because this study involves the combination of time series and cross sectional data, hence, panel regression is appropriate.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The data on return on asset (ROA), audit independence (AIND), audit committee number of meetings (ACNM), auditor size (AUDS) and audit fee (AUDF) are presented in appendix A

4.2 Data Analysis and Results

Descriptive Statistics of Variables

Table 4.1: Descriptive Statistics

Statistics	ROA	AIND	ACNM	AUDS	AUDF
Mean	0.073	0.717	3.642	0.242	6.906
Max	0.790	1	7	1	7.540
Min	0.010	0.010	2	0	6.300
Sd	0.111	0.318	0.978	0.431	0.332
Skewness	4.314	-0.466	0.763	1.199	0.021
Kurtosis	26.198	1.754	4.189	4.189	2.205
Jarque-B	1786.825	7.069	10.918	17.701	1.848
Prob	0.000	0.029	0.004	0.000	0.396
Observation	70	70	70	70	70

Source: Eview 9 Output, 2018

The Table 4.1 indicates that return on asset, audit committee independence, audit committee number of meetings, audit firm size and audit fee are 0.073857, 0.717, 3.642857, 0.242857 and 10651871 respectively. A comparison of the mean responses with the maximum values for each of the variables indicates that the insurance industry presently operates at a return on asset of 7%,

audit committee independence of 71%, audit committee number of meetings of 300%, auditor size of 24% and audit fee is at 10651871.

The table also shows that the mean of return on asset (ROA) is 0.073857, with standard deviation of 0.11119, the minimum and maximum values of 0.01000 and 0.79 respectively. It implies that the average value of ROA of listed insurance companies in Nigeria is 0.073857 to 0.79 and the deviation from both sides of the mean is 0.11119. This suggests that the data are widely dispersed from the mean because the standard deviation is more than the mean value.

The table also indicates a minimum value of audit independence (AIND) of 0.01, and maximum value of 1. The mean value 0.717 with standard deviation of 0.318672. It implies that the average value of audit independence of listed insurance companies in Nigeria is 0.717 to maximum value of 1.0 and the deviation from both sides of the mean is 0.318672. This implies that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The descriptive statistics indicates that the mean of audit committee number of meetings (ACNM) is 3.642857 with standard deviation of 0.978548, the minimum and maximum values of 2 and 7 respectively. It implies that the average value of ACNM of listed insurance companies in Nigeria is 3.642857 to 7, and the deviation from both sides of the mean is 0.978548. This suggests that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The table also indicates that the mean of auditor size is 0.242857 with standard deviation of 0.431906, the minimum and maximum values of 0.000 and 1.00 respectively. It implies that the average value of auditor size (AUDS) of listed insurance companies in Nigeria is 0.242857 to 1.00, and the deviation from both sides of the mean is 0.431906. This suggests that the data are widely dispersed from the mean, because the standard deviation is more than the mean value.

The descriptive statistics indicates that the mean of audit fee (AUDF) is 6.906 with standard deviation of 0.332, the minimum and maximum values of 6.3 and 7.54 respectively. It implies that the average value of AUDF of listed insurance companies in Nigeria 6.906 to 7.54, and the deviation from both sides of the mean is 0.332. This suggests that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The probability value of Jarque-Bera test of ROA, AIND, ACNM, AUDS are less than 5%. It indicates that they are not normally distributed. While AUDF has a probability value of 0.396, it indicates that AUDF is normally distributed. However, the Guasian theorem (1929) and Shao (2003) suggest that normality of data does not in any way affect the inferential statistics estimate to the BLUE.

Correlation Matrix and Multicollinearity Analysis

The correlation matrix is used to determine the correlation between the dependent and independent variables of the study. The table below represents the correlation matrix for the sample observations.

Correlation Matrix

Table 4.2: Correlation Matrix

	ROA	AIND	ACNM	AUDS	AUDF
ROA	1				
AIND	0.22627280	1			
ACNM	-0.2801953	-0.0183578	1		
AUDS	-0.1767164	0.29599150	0.27677711	1	
AUDF	-0.2077569	0.36256172	0.37831184	0.79587392	1

Source: Eview 9 Output, 2018

Table 4.2 presents the correlation matrix of the dependent and independent variables. It is observed that the variables correlate fairly well (between - 0.28 and 0.79). There is no correlation coefficient greater than 0.8, hence there is no problem of collinearity of data.

Post Residual Diagnostic Test

Variance Inflation Factor

Table 4.3: Variance Inflation Factor Table

Variable	VIF	1/VIF
C	NA	0.004969
AIND	1.190054	0.001839
ACNM	1.208324	0.000198
AUDS	2.733106	0.002299
AUDF	3.159675	7.370000

Source: Eview 9 Output, 2018

VIF = 1 (Not correlated)

$1 < \text{VIF} < 5$ (Moderately correlated)

$\text{VIF} > 5$ to 10 (Highly correlated)

Table above presents the variance factor (VIF) and tolerance coefficients of each of the explanatory variables. It is observed that the collinearity diagnosis revealed a VIF well below 10, a tolerance above 0.2. This shows that there is no threat of multicollinearity or independent errors. Researchers suggested that multicollinearity does not constitute a problem when the vif does not exceed 10 and when the tolerance for each of the variable is above 0.2 (Wasserman & Kutner, 1990)

Panel Regression Analysis

H₀: Random effect is appropriate

H₁: Fixed effect is appropriate

Based on the result of the Hausman test, this study accepts null hypotheses which states that Random effect is appropriate.

Table 4.4: Random Effect Model Regression Results

Variable	Coefficient	Standard Error	t-statistics	Prob
C	0.415454	0.079749	0.946135	0.3476
AIND	0.679478	0.165250	4.111815	0.0006
ACNM	-0.010831	0.014981	-0.722962	0.4723
AUDS	0.020212	0.057819	0.349564	0.7278
AUDF	-3.602017	1.542361	-2.335392	0.0291
R ²	0.43			
Adj. R ²	0.31			
F-Statistics	5.168			
Prob(F-Statistics)	0.043			
Hausman Chi2	3.97			
Hausman Prob>Chi2	0.408			
Heteroskedasticity F-statistics	0.163			
Heteroskedasticity Sig	0.159			
Breusch-Godfrey F-	0.789			

statistics				
Breusch-Godfrey	0.770			
Observed R-squared				

Dependent Variable: ROA

Source: Eview 9 Output, 2018

Table above table presents the results of Random panel multiple regressions. The result shows that the P value of F-statistics is 0.043051 which is less than 5%, this shows that the model is fit and that the model is statistically significant as it implies that all the independent variables are statistically significant. The R square value of 0.43 means that the independent variable contributes 43% to the dependent variable. It also indicates that 43 percent of the variation in return on asset (ROA) can be explained by variability in AIND, ACNM, AUDS and AUDF. The remaining 57% are the value of other variables that are not captured in the model. The adjusted R square of 0.31 indicates that any variations that can occur as a result of the introduction of additional independent variable are being taken care of and cannot affect the R square more than 31%. Durbin-Watson value of 2.44 shows there is no serial or auto correlation. Durbin (1970), states that when the Durbin Watson statistic value is above 0.5 or 50 percent, independent observation is assumed. In other words, there is no auto correlation among the residuals of the study. The Durbin Watson statistic value of 2.44 therefore indicates that there is no autocorrelation among the residuals of this study. But the presence of serial correlation will be confirmed with Breusch Godfrey LM serial correlation test.

Test of Hypotheses

Test of Hypothesis One

H₀₁: Audit committee number of meetings has no significant effect on financial performance of listed insurance companies in Nigeria.

The regression line $ROA = 0.415454 + 0.679478AIND - 0.010831ACNM + 0.020212AUDS - 3.602017AUDF$ shows that for every 1percent increase in ACNM, profitability reduces by 1%. The p-value of 0.4723 is more than the t-value of 0.05. This simply means that the null hypothesis is accepted that ACNM has no significant effect on financial performance of listed insurance companies in Nigeria. It indicates that the number of times audit committee meet do not have any influence on financial performance of listed insurance companies in Nigeria.

Test of Hypothesis Two

H₀₂: Audit committee independence has no significant effect on financial performance of listed insurance companies in Nigeria.

The regression line $ROA = 0.415454 + 0.679478AIND - 0.010831ACNM + 0.020212AUDS - 3.602017AUDF$ shows that for every 1percent increase in AIND, profitability increases by 67%. The p-value of 0.0006 is less than t-value of 0.05. This simply means that the alternative hypothesis is accepted that AIND has a significant positive effect on financial performance of listed insurance companies in Nigeria.

Test of Hypothesis Three

H0₂: Audit fee has no significant effect on financial performance of listed insurance companies in Nigeria.

The regression line $ROA = 0.415454 + 0.679478AIND - 0.010831ACNM + 0.020212AUDS - 3.602017AUDF$ shows that for every 1percent increase in AUDF, profitability reduces by 360%. The p-value of 0.0291 is less than t-value of 0.05. This simply means that the alternative hypothesis is accepted that AUDF has a significant negative effect on financial performance of listed insurance companies in Nigeria.

Test of Hypothesis Four

H0₂: Audit firm size has no significant effect on financial performance of listed insurance companies in Nigeria.

The regression line $ROA = 0.415454 + 0.679478AIND - 0.010831ACNM + 0.020212AUDS - 3.602017AUDF$ shows that for every 1percent increase in AUDS, profitability increases by 2%. The p-value of 0.7278 is greater than t-value of 0.05. This simply means that the null hypothesis is accepted that AUDS has no significant effect on financial performance of listed insurance companies in Nigeria.

The Breush-Pagan-Godfrey test for Heteroskedasticity as shown in the above table was performed on the residuals and the results showed observation R-squared of 0.1594, which is in excess of 0.05, which lead us to reject the presence of heteroskedasticity in the residual.

The Breush--Godfrey serial correlation LM test for serial correlation as shown in the above table was performed on the residuals and the results showed observated R-squared of 0.77, which is in excess of 0.05, which lead us to reject the presence of serial correlation in the residual.

4.3 Discussion of Findings

The empirical evidence derived from the fixed effect regression model indicates that Audit committee number of meetings has no significant effect on financial performance of listed insurance companies in Nigeria. The insignificant association between audit committee number of meetings and financial performance is consistent with prior findings of Thoopsamut and Jaikengkit (2009); Yahya, Abdullah, Faudziah and Ebrahim (2012); Ojeka, Iyoha and Obigbemi (2014); Ebrahim, Faudziah and Abdullah (2014). But contradicts Chechet, Yancy and Akanet (2013); Salloum, Azzi and Gebrayel (2014); Laith (2015); Merawati (2015) Vuko, Maretic and Cular (2015); and Hussaini and Gugong (2015).

This study found that Audit committee independence has significant positive effect on financial performance of listed insurance companies in Nigeria. The significant association between audit committee independence and financial performance is consistent with prior findings of Chan and Li (2008); Ilona (2008); Tornyeva and Wereko (2012); Hamdan, Sarea and Reyad (2013); Abdullahi, Qaiser, Ashikur, Ananda and Thurai (2014). But contradicts Kajola (2008); and Ghabayen (2012).

This study also revealed that audit fee has a negative significant effect on financial performance of listed insurance companies in Nigeria. Audit fee was found to be negatively significant on financial performance of listed insurance companies in Nigeria. It is significant at five percent level and negative. The negative sign on the coefficient suggests that audit fee has an indirect influence on financial performance of listed insurance companies in Nigeria.

Expectedly, audit fee is to have a negative influence on financial performance of listed insurance companies in Nigeria because the fees paid by insurance companies to external auditors in

Nigeria will definitely reduce their return on asset. This result supports the findings of Moutinho (2012); Aronmwan and Okafor (2014) but contradicts Teitel and Machuga (2010); and Hay (2012).

This study found that Audit firm size has no significant effect on financial performance of listed insurance companies in Nigeria. This result supports the findings of Ilaboya and Ohiokha (2014) and contradicts the study of Zare, Khedri and Farzanfa (2013).

Agency theory supports the findings of this study as it has been found by this study that audit committee independence, audit committee number of meetings, auditor size and audit fee do not impair financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study examined the effect of audit committee and auditor characteristics on financial performance of listed insurance companies in Nigeria. Specifically, the study examined the effect of audit committee number of meetings and audit committee independence as proxy for audit committee, while audit fee and auditor size serve as proxy for auditor characteristics. Return on asset is used to proxy financial performance of listed insurance companies in Nigeria.

In order to gain the advantage of an in-depth study and effective coverage, this study discussed the concept of audit committee, concept of auditor characteristics and concept of financial performance. The study reviewed prior literature on the subject of study and theories that are relevant for this study were discussed.

The study adopted expo facto research design and secondary data were collected from the financial statements of listed insurance companies in Nigeria. Panel regression analysis was employed because the study is a time series plus cross sectional analysis.

The study found that audit committee independence has significant positive effect on financial performance while Audit committee number of meetings has no significant effect on financial performance of listed insurance companies in Nigeria. This study also revealed that audit fee has a negative significant effect on financial performance of listed insurance companies in Nigeria. While audit firm size has no significant effect on financial performance of listed insurance companies in Nigeria. Audit fee was found to be negatively significant on financial performance of listed insurance companies in Nigeria in Nigeria. It is significant at five percent level and

negative. The negative sign on the coefficient suggests that audit fee has an indirect influence on financial performance of listed insurance companies in Nigeria.

5.2 Conclusion

This study concludes that audit committee number of meetings does not influence financial performance of listed insurance companies in Nigeria, no matter the number of times audit committee meets in a year; it has nothing to do with the financial performance of listed insurance companies in Nigeria.

The study submits that an independent audit committee protects the financial assets of listed insurance companies in Nigeria because it was discovered by this study that independent audit committee has a significant positive effect on financial performance of listed insurance companies in Nigeria.

The study also conclude that audit fees has a negative influence on financial performance of listed insurance companies in Nigeria, the amount of audit fee pay by listed insurance companies in Nigeria reduces their profitability.

This study concludes that audit firm size does not in any way affects the financial performance of listed insurance companies in Nigeria. In respective of the status of the external auditor that audits an insurance company, whether big 4 or not, it does not have anything to do with their financial performance.

5.3 Recommendations

Based on the conclusions of this study, the following recommendations are made:

Listed insurance companies in Nigeria should increase the number of times they meet in a year as this will strengthen its financial performance as the study found that the coefficient of audit committee number of meetings is positive but not significant at five percent, it is only significant at forty seven percent.

This study recommends that insurance companies should strengthen their audit committee independence by increasing the number of non executive members in their audit committee which will reflect in their financial performance.

Listed insurance companies in Nigeria should reduce the amount of audit fee they pay as it has a negative influence on their return on asset. Audit fee paid by listed insurance companies reduces their profit level, therefore it is advised that they should reduce the audit fee.

Since audit firm size does not reduce financial performance of insurance companies in Nigeria, smaller auditor should be patronized by listed insurance companies in Nigeria so as to encourage them to carry out a more thorough audit assignment.

5.4 Limitations of the Study

The limitation of this study is its use of only ten (10) listed insurance companies out of twenty five (25) listed insurance companies on the Nigeria stock Exchange as at December, 2015. The exclusion of the other fifteen (15) insurance companies was as a result of their inability to meet up with the criteria set up by this study. The ten (10) selected insurance companies represent 40% of the overall population of this study and the result can therefore be generalized and valid.

5.5 Suggestions for Further Studies

Considering the previous discussion of the major findings, the conclusion of this study and the limitation identified, there are possible avenues that can be explored in future research.

This work is limited to listed insurance companies in Nigeria; it is recommended that a similar study can be extended to other sectors of the economy. In another vein, a study of this nature can be carried out using other proxies to measure audit committee characteristics such as audit committee expertise, auditor characteristics such as auditor tenure can also be used, Interested researcher can also extend the scope of the study as this study only covered 2009-2015.

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APPENDIX A

Table 4.1: Variables of the Study

COMPANY	Id	YEAR	ROA	AIND	ACNM	AUDS	AUDF
STANDARD ALLIANCE	1	2009	0.3	1	3	0	6.78
	1	2010	0.79	1	2	0	6.88
	1	2011	0.03	1	2	0	6.88
	1	2012	0.22	1	3	0	6.95
	1	2013	0.1	1	3	0	6.95
	1	2014	0.26	1	3	0	6.85
	1	2015	0.31	1	3	0	6.85
NIGER INSURANCE	2	2009	0.01	1	4	0	6.90
	2	2010	0.01	1	4	0	6.95
	2	2011	0.06	1	4	0	7.13
	2	2012	0.01	0.33	4	0	7.08
	2	2013	0.02	0.33	4	0	7.18
	2	2014	0.03	0.33	4	0	7.23
	2	2015	0.03	0.33	4	0	7.21
SOVEREIGN TRUST	3	2009	0.01	0.25	3	0	6.48
	3	2010	0.05	0.25	3	0	6.70
	3	2011	0.09	1	2	0	6.70
	3	2012	0.21	1	3	0	6.70
	3	2013	0.04	1	4	0	6.88
	3	2014	0.03	1	3	0	6.88
	3	2015	0.06	1	3	0	6.88

WAPIC INSURANCE	4	2009	0.02	0.5	3	1	7.39
	4	2010	0.06	1	5	1	7.30
	4	2011	0.01	1	3	1	7.38
	4	2012	0.02	1	6	1	7.41
	4	2013	0.02	1	6	1	7.46
	4	2014	0.01	1	7	1	7.52
	4	2015	0.03	1	5	1	7.48
CONSOLIDATED HALLMARK	5	2009	0.05	0.01	3	0	6.54
	5	2010	0.04	0.01	3	0	6.54
	5	2011	0.05	0.2	4	0	6.60
	5	2012	0.03	0.2	5	0	6.70
	5	2013	0.03	0.2	4	0	6.81
	5	2014	0.03	1	5	0	6.83
	5	2015	0.08	1	5	0	6.83
STACO INSURANCE	6	2009	0.06	0.5	3	0	6.48
	6	2010	0.01	0.5	2	0	6.48
	6	2011	0.26	1	4	0	6.48
	6	2012	0.03	1	3	0	6.70
	6	2013	0.03	1	2	0	6.78
	6	2014	0.01	0.5	3	0	6.78
	6	2015	0.01	0.25	4	0	6.78
AIICO	7	2009	0.15	1	3	1	6.95
	7	2010	0.01	1	3	0	6.92
	7	2011	0.05	1	3	0	

							7.15
	7	2012	0.04	1	3	0	7.15
	7	2013	0.02	1	3	0	7.26
	7	2014	0.04	1	4	1	7.40
	7	2015	0.01	1	4	1	7.54
NEM	8	2009	0.12	0.5	4	0	6.70
	8	2010	0.15	0.5	3	0	6.70
	8	2011	0.05	0.5	4	0	6.88
	8	2012	0.06	0.5	3	0	6.78
	8	2013	0.04	0.5	3	0	6.90
	8	2014	0.14	0.5	4	0	6.90
	8	2015	0.06	0.5	4	0	6.90
REGENCY ALLIANCE	9	2009	0.02	0.5	4	0	6.30
	9	2010	0.05	0.5	4	0	6.30
	9	2011	0.05	0.5	4	0	6.32
	9	2012	0.08	0.5	4	0	6.32
	9	2013	0.07	0.5	4	0	6.36
	9	2014	0.05	0.5	5	0	6.38
	9	2015	0.05	0.5	5	0	6.44
CORNERSTONE	10	2009	0.04	0.5	2	1	7.06
	10	2010	0.02	1	4	1	7.15
	10	2011	0.01	1	4	1	7.17
	10	2012	0.04	0.5	4	1	7.30
	10	2013	0.07	0.5	4	1	7.29

	10	2014	0.09	1	3	1	7.30
	10	2015	0.03	1	3	1	7.30

APPENDIX B: Descriptive Statistics

	ROA	AIND	ACNM	AUDS	AUDF
Mean	0.073857	0.717000	3.642857	0.242857	6.906143
Median	0.040000	1.000000	4.000000	0.000000	6.880000
Maximum	0.790000	1.000000	7.000000	1.000000	7.540000
Minimum	0.010000	0.010000	2.000000	0.000000	6.300000
Std. Dev.	0.111190	0.318672	0.978548	0.431906	0.332039
Skewness	4.314470	-0.466727	0.763034	1.199334	0.021952
Kurtosis	26.19843	1.754072	4.189435	2.438402	2.205056
Jarque-Bera	1786.825	7.069046	10.91894	17.70125	1.848770
Probability	0.000000	0.029173	0.004256	0.000143	0.396775
Sum	5.170000	50.19000	255.0000	17.00000	483.4300
Sum Sq. Dev.	0.853059	7.007070	66.07143	12.87143	7.607259
Observations	70	70	70	70	70

APPENDIX C: RESULT OF HAUSMAN TEST

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.978773	4	0.4089

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
AIND	1.310724	0.107650	0.000378	0.1949
ACNM	-0.002447	-0.010831	0.000066	0.3015
AUDS	0.072343	0.020212	0.002414	0.2887
AUDF	-1.729034	-3.602017	0.000000	0.9004

Cross-section random effects test equation:

Dependent Variable: ROA

Method: Panel Least Squares

Date: 05/21/17 Time: 12:37

Sample: 2009 2015

Periods included: 7

Cross-sections included: 10
Total panel (balanced) observations: 70

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000768	0.101173	0.007594	0.9940
AIND	1.310724	0.107650	12.17579	0.0000
ACNM	-0.002447	0.017037	-0.143633	0.8863
AUDS	0.072343	0.075877	0.953433	0.3445
AUDF	-1.729034	0.539093	-3.207303	0.0032
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.465030	Mean dependent var	0.073857	
Adjusted R-squared	0.340841	S.D. dependent var	0.111190	
S.E. of regression	0.090273	Akaike info criterion	-1.795090	
Sum squared resid	0.456361	Schwarz criterion	-1.345391	
Log likelihood	76.82816	Hannan-Quinn criter.	-1.616464	
F-statistic	3.744523	Durbin-Watson stat	2.793944	
Prob(F-statistic)	0.020166			

APPENDIX D: Result of Random Effect

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 05/21/17 Time: 12:35
Sample: 2009 2015
Periods included: 7
Cross-sections included: 10
Total panel (balanced) observations: 70
Wallace and Hussain estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.415454	0.079749	0.946135	0.3476
AIND	0.679478	0.165250	4.111815	0.0006
ACNM	-0.010831	0.014981	-0.722962	0.4723
AUDS	0.020212	0.057819	0.349564	0.7278
AUDF	-3.602017	1.542361	-2.335392	0.0291
Effects Specification				
		S.D.	Rho	
Cross-section random		0.059863	0.3049	
Idiosyncratic random		0.090391	0.6951	
Weighted Statistics				
R-squared	0.437068	Mean dependent var	0.036609	
Adjusted R-squared	0.319657	S.D. dependent var	0.090750	
S.E. of regression	0.090310	Sum squared resid	0.530139	

F-statistic	5.168208	Durbin-Watson stat	2.447618
Prob(F-statistic)	0.043051		

Unweighted Statistics

R-squared	0.437068	Mean dependent var	0.036609
Sum squared resid	0.530139	Durbin-Watson stat	2.447618

APPENDIX E: Fixed Effect Regression

Dependent Variable: ROA
Method: Panel Least Squares
Date: 05/21/17 Time: 12:22
Sample: 2009 2015
Periods included: 7
Cross-sections included: 10
Total panel (balanced) observations: 70

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000768	0.101173	0.007594	0.9940
AIND	1.310724	0.107650	12.17579	0.0000
ACNM	-0.002447	0.017037	-0.143633	0.8863
AUDS	0.072343	0.075877	0.953433	0.3445
AUDF	-1.729034	0.539093	-3.207303	0.0032

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.465030	Mean dependent var	0.073857
Adjusted R-squared	0.340841	S.D. dependent var	0.111190
S.E. of regression	0.090273	Akaike info criterion	-1.795090
Sum squared resid	0.456361	Schwarz criterion	-1.345391
Log likelihood	76.82816	Hannan-Quinn criter.	-1.616464
F-statistic	3.744523	Durbin-Watson stat	2.793944
Prob(F-statistic)	0.020166		

APPENDIX F: Variance Inflation Factors

Date: 05/21/17 Time: 13:03
Sample: 1 70
Included observations: 70

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.004969	32.12777	NA
AIND	0.001839	7.301817	1.190054

ACNM	0.000198	18.19670	1.208324
AUDS	0.002299	25.69302	2.733106
AUDF	7.37E-18	8.565834	3.159675

APPENDIX G: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.687872	Prob. F(4,65)	0.1635
Obs*R-squared	6.586680	Prob. Chi-Square(4)	0.1594
Scaled explained SS	65.78501	Prob. Chi-Square(4)	0.0832

APPENDIX H: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.236677	Prob. F(2,63)	0.7899
Obs*R-squared	0.522026	Prob. Chi-Square(2)	0.7703

