Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.4, No.16, 2013

Audit Committees and Corporate Performance of Selected Companies Quoted in the Nigerian Stock Exchange: a Perception Analysis.

PROF. U. Modum, Dr. Robinson Onuora Ugwoke, Dr. Edith Ogoegbunam Onyeanu
Department of Accountancy Faculty of Business Administration University of Nigeria Enugu Campus.

Abstract
The spate of corporate failures in recent times calls for serious examination of their causes and possible solution. Audit committees are statutorily compulsory component of the management of corporate organizations in Nigeria (CAMA 1990) and constitute a credible component of corporate government element. For quite some time now, audit committees have been instituted to add teeth to corporate governance in publicly quoted companies. In spite of this, corporate failures are still rampant. It becomes necessary to ask: how significant is the contribution of the audit committees to corporate performance of quoted companies in the Nigerian Stock Exchange. This paper therefore evaluates the relevance of the audit committee on corporate performance. It focuses on Non-Financial companies quoted in the Exchange between 2006 and 2010. It regresses the average perceived quality of the audit committees against critical financial ratios of these companies over the years covered. A sample size of 287 was selected using the Taro Yameni formula and the Microsoft Special Package for Social Sciences (SPSS) statistical analysis was adopted to perform the regression analysis. It was discovered that the quality of audit committee rather than its mere existence impacts on the performance of companies through a positive impact on corporate governance of such companies. However, for majority of the companies (more than 80 percent), their audit committees are weakly constituted with majority of the members lacking the necessary qualities of integrity, dedication, a thorough understanding of the business of the company among others. These qualities according to Shamsudden (2003) are the bedrock of or sterling qualities of audit committee membership.
Keywords: Audit Committee, Corporate Governance, Control, Corporate Performance

1.INTRODUCTION

The distinct characteristic of 'divorced management from ownership' of modern corporations, make stewardship accounting inevitable in company administration and management. Professional managers who (Wikipedia, 2007) are considered more competent than the owners of the corporations and are thus hired to run and manage the affairs of the companies are expected to guarantee transparency accountability and fairness in their duties (Howard, 2000). This is a basic tenet of corporate governance. It is guaranteed by ensuring that various mechanisms are put in place to ensure seamlessness in accommodating corporate goal (ownership goal) and management goal in an enterprise. Tricker (1984) had distinguished management and control in the bid to explain corporate governance by asserting that if management is about running business, then governance in the corporate world is about seeing that companies are run properly. Hence corporate governance is concerned with ways in which all parties interested in the well-being of the firm, in order words the stakeholders, attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. Separation of duties usually depicted in an 'organigram', is not only a feature of good internal control but also an essential ingredient of good corporate governance.
The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the firm including spelling out the rules and procedures for making decisions. Hence Wolfenson (1999), Uche (2004) and Akinsulire (2006) all agree that corporate governance provides the structure through which the company's objectives are set and the strategies, the tactics and the means, of attaining those objectives and monitoring performance defined. Manne (1965) however, set the tone which was later made louder by Alchian and Demetz (1972) and Bonnier and Bruner (1989) to the effect that the Board of Directors (BOD) is the most important and possibly, the greatest beneficiary of all good mechanisms of internal control including corporate governance. However, there are other mechanisms of corporate governance, especially the audit committee, that play vital roles in ensuring smooth and efficient management and administration of companies. After all, according to Williams (2001), all stakeholders responsible for promoting sound corporate governance such as the board, the management, the audit committee and regulators are almost equally challenged by the recent failures in corporate governance in Nigeria and should be compelled to ensure that sound corporate governance exist. According to CAMA 1990, the audit committee is a committee of shareholders and non-executive directors charged with the responsibility of liaising between the external auditors and the BOD on one hand, and between management and the external auditors on the other hand. The inclusion of this committee in the corporate governance mechanism raises the expectations of shareholders and the general public for enhanced

corporate governance and by extension increased performance of companies. This raised confidence is predicated on perceived checkmating role of the Audit Committees in ensuring that the BOD lives up to expectation in fulfilling the globally accepted pillars of corporate governance, to wit, accountability, fairness, responsibility and transparency. But the rampant failure of corporate governance in Nigeria as manifested in corporate failures throw strong doubt on the effectiveness of audit committees in carrying out this role. Companies have gone under at alarming rate in Nigeria in recent times and while external factors (economic infrastructure especially power, legal architecture, fiscal policies et cetera) may not have been exonerated, much blame is on absence of strong commitment to the tenets of corporate governance of which Audit Committee is a critical element. Cadbury Plc, Nigerian Railway Corporation (NRC), National Electric Power Authority (NEPA), Kaduna Textile Industry, Asaba Textile Industry, Nigerian Telecommunications Limited (NITEL) Benue Cement Company Gboko, Niger Cement Company Nkalagu, Nigerian Coal Corporation (NCC), Leventis Plc, *et cetera* and several banks are some of the corporate failures in recent time in Nigeria for which strong questions have been raised on the failure of corporate governance. A logical question that arouses the curiosity of this researcher becomes: to what extent does audit committee positively impact on corporate governance and financial performance of companies in Nigeria? This paper addresses this question by evaluating the impact of audit committee on corporate performance in Nigeria and through testing of the hypothesis that there is no significant positive impact of audit committee on corporate performance in Nigeria. The paper is organized in five parts. . Part one of the paper introduces the work, part two contains the literature review, part three the methodology, while part four presents and discusses the findings and part five concludes.

2. LITERATURE REVIEW

2.1 AUDIT COMMITTEE

According to CAMA 1990, the audit committee is a committee of shareholders and non-executive directors charged with the responsibility of liaising between the external auditors and the BOD on one hand, and between management and the external auditors on the other hand. Audit Committees are the most important recent development in the corporate governance structure and are expected to contribute significantly in this respect. Shamusdden (2003) opines that members of the committee should possess qualities such as integrity, dedication, and a thorough understanding of the business of the company. Moreover, the composition of the Audit Committee (AC) and the manner in which they exercise their governance and oversight responsibilities have a major impact on the overall internal control mechanism of a company. Expectedly, the independence of the AC from management, the level of accounting knowledge possessed by members, the experience and status of the members, the extent of their involvement and scrutiny of management activities, the appropriateness of their actions (for instance, the degree to which they raise and pursue difficult questions with management), all determine the efficiency and effectiveness of this committee. As an intermediary between the management and the external auditors, it is equally expected that an effective audit committee can enhance the independence and professional skepticism of an external auditor. Interestingly, the BOD and the AC exist in a mutually reinforcing symbiotic relationship. The effectiveness of one enhances the efficiency of the other since an effective AC helps to set a positive tone at the top.

As for the relationship between the AC and the external auditor, the later should evaluate the effectiveness of the former as part of understanding the control environment and monitoring quality in the enterprise. Hence in evaluating the overall internal control efficiency in the company, the external auditor considers among other things; the independence of the AC from management; the clarity with which the AC's responsibilities are articulated; how well the AC and management understand those responsibilities; the AC's involvement and interaction with the independent auditor; the AC's interaction with key members of financial management team; whether questions raised by the AC indicate an understanding of the critical accounting policies and judgmental accounting estimates; and the AC's responsiveness to issues raised by the auditor. To the auditor therefore, Arens *et al* (2009), insist that ineffective oversight by the AC of the company's external financial reporting should be regarded as at least, a significant deficiency and a strong indicator of a material weakness in internal control and corporate governance. In the same vein, the Nigerian Securities and Exchange Commission delists any company with an AC that: is not comprised solely of independent directors; is not solely responsible for hiring and firing of the company's auditors; does not establish procedures for the receipt and treatment of complaints (*e.g.* whistle blowing) regarding accounting, internal control or auditing matters; does not have the ability to engage its own independent counsel and other advisor; and is inadequately funded.

2.2 Corporate Governance and the Audit Committee

Corporate governance is synonymous with the responsibility associated with large scale artificial persons that lack the capacity to manage themselves (Salomon v Salomon and CO ltd, 1897). By vesting the day to day running of the entity to a team of directors and senior managers who are distinct from their owners, ownership becomes divorced from management necessitating the guarantee for transparency, accountability and fairness in the management of the enterprise. Mayer, (2000) opines that corporate governance is about control and running of companies where concerns are raised as to who is in control, for how long and over what activities? Deakin and Hughes (1997) posit that corporate governance entails the connection between the internal control machinery of corporations and the general public's notion of the scope of corporate accountability. Hence, it is a set of rules applicable to the direction and control of companies where however, management is seen to connote running a business and governance becomes ensuring that it is run properly (Tricker, 1984). Specifically, corporate governance creates a framework of goals and policies to guide an organization's progress and forms a foundation for assessing Board and management performance (Adedotun, 2003). In a more elaborate tone, Oyediran (2003) stresses that corporate governance looks at the institutional and policy framework for management of corporation from the very beginnings, in entrepreneurship, through the government structures, company law, privatization, insolvency and to market exit. It not only depends on the legal, regulatory, institutional, environmental and societal interests of the communities in which it operates, but also has impact on the reputation and long-term success of a company.

Much of efficient corporate governance also depends on the efficiency and effectiveness of internal control within the organization. After all; fraud, misappropriation, theft, waste of resources and non respect of the rights of all stakeholders are evidences of both weak internal control and poor corporate governance. And it is in response to the rise in fraud cases that the US Congress developed recommendations aimed at improving the effectiveness of the audit committee in publicly held companies in the United States. According to Securities Exchange Commission (SEC) (2003) the US Congress Report (2002), demands in addition to the independence of the members of the audit committees, that companies should disclose whether or not the audit committees include financial experts (and, if not, why not). A study carried out by Sarens et al (2009), concludes that financial expertise and the independence of audit committee members improve their effectiveness in reducing the likelihood of misappropriation of assets and overall tone of corporate governance in publicly held companies in the US. Along the same line, Moriceau (2004) and Chapple et al (2009) conclude from their separate studies also in the US, that the higher the percentage of independent members, the greater the effectiveness of the audit committee, and the longer the average tenure of audit committee members, the lower the incidence of misappropriation of assets. In addition, continue Chapple et al, the proportion of independent directors on the audit committee is inversely related to the incidence of misappropriation.

According to Sezoort and Salterio (2001), and McDaniel et al (2002), financial expertise impacts audit committee member's judgments and financial reporting-related outcome. Again experts tended to focus more on recurring, prominent issues. Xie et al (2003) examined the relationship between discretionary accruals as proxy for earnings management, and the background of audit committee members. They found that the proportion of audit committee members with corporate or investment banking background is negatively related to the level of earnings management. Hence an active and financially oriented audit committee may influence the level of earnings management and lower it drastically to the benefit of other stakeholders. This is undoubtedly a positive influence on corporate governance. Interestingly again, Abbot et al (2004) examined the impact of audit committee financial expertise on financial restatements while defining financial expertise to include certified public accountants, investment bankers, venture capitalists, chief financial officers, controller or someone who has held a senior management position with financial responsibilities, and found that firms with financial experts on the audit committees are less likely to experience financial reporting restatement. Even more acutely, Bedard *et al* (2004) found that the presence of at least one financial expert is negatively associated with aggressive earnings management. Just the same way as Agrawal and chadha (2005) found that the probability of restatement of financial statement is significantly lower when the audit committee has financial experts. Much of creative accounting could therefore be minimized by the presence of a credible audit committee composed by financial experts. In addition, Defond et al (2005), examined the ideal composition of audit committees and found that a favorable market reaction occurs whenever there is an announcement of the appointment of directors who are accounting experts, especially when other good governance attributes exist.

In any case, no empirical evidence has been established in Nigeria to the knowledge of these researchers as to the exact impact of audit committee composition on corporate governance and corporate performance. After all, corporate governance in Nigeria within the concept of company management and administration is seen as the exercise of power over the enterprise direction, the supervision and control of enterprise actions, the concern for the effect of the enterprise on other parties, the acceptance of a duty to be accountable and self-regulated within the status and jurisdiction of the Federal Republic of Nigeria. From the prism of the overall rights of shareholders to specific equitable treatment of marginal and minority shareholders which adequate corporate governance is expected to protect and guarantee, an oversight functioning body such as the Audit Committee should be a critical factor. The need for the Audit Committee to discharge its functions credibly as provided in the SEC's Code of best practices of Corporate Governance (2003) should demand independent, accounting-knowledge compliant or broadly defined financial experts, external directors and shareholders, non-compromising and alert members to constitute the Audit Committee.

Little wonder that the Code *inter alia*, provides for the existent of audit committees (compulsorily for large firms), the separation of the roles of Chief Executive Officer and Chairman of the BOD; determination of Executive Directors' compensation by non-executive directors; schedule of matters reserved for the Board; the exclusion of non-executive directors in share option schemes and pension arrangements with the company; the establishment of a formal selection process for the appointment of non-executive directors as a matter for the entire board; disclosure in annual reports including Directors' Reports on the effectiveness of the company's system of internal control and the going concern status of the business. On its part, the CAMA i990 provides specifically that a public limited liability company should have an audit committee (maximum of six members of equal representation of three member each representing the management/directors and shareholders) in place. The Act goes further to assign responsibilities to the audit committee as follows; working to ensure increased public confidence in the credibility and objectivity of published financial statements; assisting the directors, especially the non-executive directors, in meeting their responsibilities of financial reporting; and strengthening the independent position of a firm's external auditors by providing an additional channel of communication. The functions assigned to the audit committee in the Act include the provision of oversight functions on effective internal control, reliable financial reporting, which must comply with regulatory requirements and corporate code of conduct. Audit committees are also expected to review not only external auditor's reports but also the report of the internal auditor. In addition the committee is to maintain a constructive dialogue with external auditors and the board in order to enhance the credibility of financial disclosures. Therefore, a properly constituted audit committee that is both efficient and effective is expected to impact positively on both corporate governance and financial performance of a company.

2.3 Corporate Performance

The capacity and ability of a firm to use its assets to generate revenue from its primary mode of business depict its overall financial health. When this is measured periodically, it forms the basis for both horizontal and vertical analysis and comparison. According to Demsetz and Lehn (2004), financial performance involves measuring a firm's policies and operations in monetary terms which are depicted in the firm's return on investment, return on assets, value added, *et cetera.* That is, accounting profit ratios proxy corporate performance. Corporate governance has been found to correlate positively with corporate performance, (Attiye and Robina, 2007) both seen from these accounting ratios of the firm and the movement of its price in the stock market. While the accounting profit ratios are measured by the Accountant constrained only by the standards set by his profession, the performance as reflected by the movement of its price in the stock market is measured by the investors constrained by their acumen, information, optimism or pessimism and general psychology. In either case however, Young (2000) suggests that best governance practices exert a positive influence on firm performance since it prevents management and controlling investors from taking initiatives to expropriate minority investors. This, it is argued impacts positively on the firm's goodwill and ability to attract equity capital from prospective marginal investors. Hence in considering approaches to measurement of firm level financial performance, Sanda *et al* (2003), insist that this is found in social science research based on market prices, accounting ratios and total factor profitability where market prices are readily obtained from national stock exchanges for all listed firms. While profit is a flow concept, profit margin measures the flow of profits over some period compared with revenue and costs and thus there could be gross profit margin, operating profit margin, return on equity *et cetera*. The relationship between corporate governance and firm's financial performance stems from the understanding that economic value is driven by governance mechanisms such as the legal protection of capital, the firm's competitive environment, its ownership structure, CEO-Duality, board composition and size, (the focus of this paper), existence of Audit Committee and financial policy (Uadiele, 2010). In this light, Gompers *et al* (2003) find that stock returns are higher for firms with strong shareholder rights as compared to firms with weak shareholder rights. This suggests that firms with stronger or better corporate governance provisions outperform those with poor governance provisions in terms of profits, capital acquisition and sales growth. They also add that there is substantial evidence showing that weakly governed firms experience lower performance based on operating performance measures, lower sales growth and net profit margins. This has been corroborated by Khatab *et al* (2011) from a study of twenty listed firms in the Karachi Stock Exchange in Pakistan.

2.4 Assessment of Current Corporate Governance Issues and Corporate Performance in Nigeria.

Whereas in the United Kingdom approaches to best practices in corporate governance reflect a deep appreciation that governance should promote both accountability to shareholders and the board's ability to manage the company effectively and efficiently the situation in Nigeria has been different. For instance, the key features of the UK best practices codified by the country's company law and the listing rules demand inter alia; a unitary board with members collectively responsible for leading the company; division of powers at the apex of the company hierarchy, emphasizing the distinction between running the board by the Chairman and running the company by the CEO; a balance of executive and independent non-executive directors where for larger companies, at least 50% of the board members should by independent non-executive directors and for smaller companies at least two independent directors; formal and transparent procedures for appointing directors, with all appointments ratified by shareholders; regular evaluation of the effectiveness of the board and its committees; formal and transparent procedures for setting executive remuneration, including a remuneration committee made up of independent directors and an advisory vote for shareholders; and a significant proportion of executive remuneration linked to performance. The illicit activities and insider dealings of most Nigerian Bank Chief Executives and directors as revealed by the Governor of the Central Bank of Nigeria in 2009 shows a striking different scenario and summarize the level of decadence in corporate governance in Nigerian companies. Corporate governance is yet at a rudimentary stage in Nigeria with less than 40% of quoted companies including banks having recognized the codes of corporate governance, (CBN, 2006). But Nganga et el (2003) insist that corporate governance is a crucial ingredient in the process of encouraging domestic investment as well as inflow of foreign direct investment in Nigeria. They further lament that corporate governance practices in Nigeria reflect systemic governance problems including the inability to ensure effective capacity, constraints by administrators and ineffective implementation of laws. This leads to limited economic growth (Suberu and Aremu, 2010). And in realization of the need to align with international best practices, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC), inaugurated a seventeen (17) member committee in June 2000 in Nigeria headed by Atedo Peterside, to review and identify weaknesses in the current corporate governance practices in Nigeria and make recommendations for improvement. According to Inyang (2009), the members of the committee were selected to cut across relevant sectors of the economy including members of professional organization, the private sector and regulatory agencies. The committee submitted a draft code, which was widely publicized throughout the country and reviewed in major financial centers of Lagos, Abuja and Port Harcourt to elicit stakeholders' input prior to finalization. The final report was approved in 2003 by the boards of SEC and CAC. The release of the 2003 code marked a watershed in the development of good corporate governance practices in Nigeria. Essentially, the Code stipulated among other things, the appointment of audit committee especially for large firms in a manner or composition to ensure diversity of experience without compromising financial expertise, integrity, availability and independence. It remains to be seen how far these provisions are being implemented. It also remains to be ascertained, the extent to which the roles of the audit committees as stipulated in the Code, *to wit*: the provision of oversight functions on effective internal control, reliable financial reporting, which must comply with regulatory requirements and corporate code of conduct; are being carried out in non-financial companies quoted in the Nigerian Stock Exchange.

3. METHODOLOGY

The paper adopts a survey design. The population of the study is made up of all the non-financial companies quoted in the Nigerian stock exchange within the period covered by the study. Using the Taro Yameni formula at 95 percent confidence level and error margin of 0.05, a sample size of 72 is selected. In each company three persons (managers/Accountants) are asked to fill out the questionnaire. Through cluster random sampling, sample elements representing all the sections of the non-financial companies were picked from the sample frame. To enhance the robustness of the findings, an oral interview was conducted on the sampled firms. The interview guide established the existence of the audit committee, the composition of the committee, the existence of procedures and duties of the committee, the functioning of the committee, the relationship and communication channel between the committee and the external auditor on one hand and the board on the other, the quality of the oversight function on the production of financial reports et cetera. Responses were reduced into a 5-point Linker scale and analyzed using the Microsoft Special Package for Social Sciences.

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Perceived Impact of Audit Committee on Corporate Governance and Performance.

Data presented on table 4.1 in Appendix 1

Evidence from table 4.1 shows that the respondents agree that the presence of Audit Committees provide an additional channel of communication in companies and this strengthens the independence of the external auditors. The average of 4.46 is closest to the linkert scale of 4 which represents 'Agree'. In the same vein, the average of 4.17 indicates an agreement of the respondents that the activities of Audit Committees promote increasing public confidence in the credibility and objectivity of published financial statements of companies and this positively impacts the corporate governance tone of companies and their financial performance. Equally shown is the average of 4.28 signifying an agreement to the fact that the inclusion of financial experts (Accountants and allied professionals) in the Audit Committee strengthens the reporting and auditing functions in the firm. Essentially too, the respondents agree (3.66 also closest to the 4 mark in the scale) that Audit

Committee provides the necessary oversight functions on effective internal control, reliable financial reporting that complies with statutory and regulatory requirements including corporate code of conduct, all geared towards boosting corporate governance and performance. Again the average of 3.74 recorded by the respondents indicates that the audit committee's oversight roles significantly reduce financial imprudence, unethical practices and material misstatements. On the whole the average of 4.6 signifies an overall agreement to the positive impact of Audit Committees on corporate governance and performance of companies quoted in the Nigerian Stock Exchange. This result is further corroborated through a hypothesis test using the X^2- Chi-square test statistics thus:

4.2 Test of hypothesis.

Null hypothesis: Audit Committee Size and Composition do not have significant positive effect on the corporate performance of quoted non financial companies on the Nigerian Stock Exchange.

REGRESSION

Descriptive Statistics

	Mean	Std. Deviation	N
corporate performance	2.1852	1.28832	864
Audit commitee size and composition	1.9780	1.17159	864

Correlations

		corporate performance	Audit commitee size and composition
Pearson Correlation	corporate performance	1.000	.687
	Audit commitee size and composition	.687	1.000
Sig. (1-tailed)	corporate performance	.	.000
	Audit commitee size and composition	.000	.
N	corporate performance	864	864
	Audit commitee size and composition	864	864

Model Summary(b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.687(a)	.472	.471	.93705	.108

a Predictors: (Constant), Audit commitee size and composition

b Dependent Variable: corporate performance

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	675.482	1	675.482	769.287	.000(a)
	Residual	756.889	862	.878		
	Total	1432.370	863			

a Predictors: (Constant), Audit commitee size and composition

b Dependent Variable: corporate performance

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	.692	.063		11.050	.000
	Audit commitee size and composition	.755	.027	.687	27.736	.000

a Dependent Variable: corporate performance

TABLE 4.2 SPSS RESULT ON THE EFFECT OF ACSC ON CP

Particulars	R	R^2	Adj. R^2	DW	Standard Coefficients		F	Sig
					Beta	T- Value		
All Firms	0.687[(a)]	0.472	0.471	.108	0.687	27.736	769.287	0.000

NOTE:

R = Correlation Coefficient or Beta
R^2 = Coefficient of Determination
Adj. R^2 = Adjusted Coefficient of Determination
DW = Durbin Watson (d) test statistic
T-value = Student t- test Statistic
F = F- test statistic

Interpretation on corporate performance:

The regression sum of squares (675.482) is less than the residual sum of squares (756.889), which indicates that more of the variation in the dependent variable is not explained by the model. The significance value of the F statistics (0.000) is less than 0.05, which means that the variation explained by the model is not due to chance.

R, the correlation coefficient which has a value of 0.687, indicates that there is a significant relationship between the Audit committee size and composition and corporate performance. R square, the coefficient of determination, shows that 47.2% of the variation in the corporate performance is explained by the model.

With the linear regression model, the error of estimate is high, with a value of about 0.93705. The Durbin Watson statistics of .108, which is not up to 2, indicates that there is no autocorrelation.

The audit committee size and composition coefficient of 0.755 indicates a positive significance between audit committee size and composition coefficient, which is statistically significant (with t = 27.736). Therefore, the null hypothesis should be rejected and the alternative hypothesis accordingly accepted. The perception of the respondents therefore, is that the composition of the audit committees by mainly shareholders and non executive directors can hardly have any significant relationship with profit margin. But they opine that a more closely relationship could exist between audit committee role and the return on equity of the companies. This is explained from the oversight function over internal control and internal audit activities by the audit committees which go a long way to ensure more efficient application and effective control of resources. Wrongly composed and inefficient audit committee would therefore negatively affect the return on equity of the companies. This corroborates earlier studies by 'Klein (2002), Mansi and Reeb (2004), Kajola (2008) and Laib et al (2011). The perception is that a properly constituted audit committee of not less than 10 members and of proven financial competence, integrity and experience would impact more positively on the performance of companies. Such a large committee can be further broken into subcommittees to ensure proper coverage of the activities of the company all year round. This would ensure closer and timelier oversight functions over the internal control, accounting and auditing activities in the company. An audit committee constituted normally by shareholders and non-executive directors may mistakenly perform its duties like external auditors or simply an after-the-fact operator. To be more effective, audit committees have to bring value to the system by getting involved in the real time operations of the enterprise- prepayment audit, operational review, *et cetera.* The audit committee needs to be fully involved in the entire gamut of the financial management of the company – planning and programming, budgeting, execution/implementation and recording/accounting and audit and evaluation.

5. CONCLUSION

Opinion survey suggests a strong relationship between the role and functions of a properly constituted audit committee and the corporate governance and performance of listed companies on the Nigerian Stock Market. However, empirical evidence from secondary data on the profit margin and return on equity of these companies fail to show such robust relationship. The implication is that audit committees of these companies are yet to rise to the occasion in terms of proper oversight function over the accounting and auditing functions of these companies. Though in compliance with statutory and regulatory provisions, the companies have audit committee members constituted by mainly shareholders and non-executive directors, the other qualities of would be members are not sufficiently considered. Hence not all the audit committees have proven financial competence, integrity, experience and availability as basic criteria for selection of their membership. The BOD in practice does not properly constitute the audit committee membership. The board is said to have influenced greatly, the appointment of audit committee members even when the exercise is done at the floor of the Annual General Meeting of the company. This practice is inimical to proper functioning of an audit committee and the result is a rubber-stamp kind of audit committee. Under the prevailing circumstance therefore, the audit committee can hardly function properly to impact positively on both good corporate governance and financial performance of the company it is meant to serve. An efficient Audit Committee is a sin qua non to proper accountability, transparency and hence good corporate governance. Appointment of members should be devoid of political or selfish interests as the overall maximization of shareholders wealth should be the overriding objective in constituting the membership of Audit Committees. The independence and integrity of the audit committee directly influences the independence and objectivity of the external auditor and rubs off positively on the confidence of present and potential investors in the company. This paper recommends that the entire legal and regulatory framework together with the necessary institutional and environmental architecture for proper constitution and operation of an efficient Audit Committee should be maintained at all times to enhance corporate governance and improve financial performance of listed companies on the Nigerian Stock Market.

References

Abbot, L.J., Parker, S. and Peters, G. (2004), ''Audit Committee Characteristics and Restatements'', *Auditing:AJournal of Practice & Theory,* 23(1):69-87.

Agrawal, A. and Chadha, S. (2005), ''Corporate governance and accounting scandals'', *Journal of Law & Economics ,48(2):371-406*

Akinsulire, O. (2006), *Financial Management* 4th edition, Lagos, Ej-Toda Ventures.

Arens, A., Elder, R. and Beasley, M. (2009), *Auditing and Assurances Services, 13th ed.*, Upper Saddle River, NJ.,Prentice Hall

Al-faki, M. (2006), ''Tranparency and corporate governance for capital market development in Africa: The Nigerian case study''. *Securities Market Journal,* 2006 edition: 9 -28

Attiye, J.J. and Robina, J. (2007*), Relationship between Corporate Governance Indicators and Firm Performance in case of Karachi Stock Exchange,* Parkistan Publishing Co.

Baysinger, B. and Butler, H. (1985), ''Corporate governance and board of directors: performance effect of changes in Board Composition'' *Journal of Law, Economics and Organization,* 1:101-124

Bedard, J., Chtourou, S.M. and Courteau, L. (2004), ''The effect of audit committee expertise, independence, and activity on aggressive earnings management'', *Auditing: A Journal of Practice & Theory, 23(2):13-35*

Bernard, I. (2012), ''Corporate governance in Nigeria, what we need to do'' *Investment platform Mutual Alliance Research*: 38-39

Bhagat, S. and Black, B. (2002), ''The Non-Correlation between Board Independence and Long-Term Firm Performance'', *Journal of Corporation Law* (27):231-274

Bhagat, S. and Black, B. (2008), ''Corporate Governance and Firm Performance'' *Journal of Corporate Finance* (14): 257-273

Bhana, N. (2010), ''The stock market reaction to criticism of corporate governance practices of companies listed on the JSE'' *Investment Analysts Journal* (72)

Bocean, C.G. and Barbu, C.M. (2007), *Corporate governance and firm performance,* University of Craiova

CBN, (2006), *Annual Reports.*

Chapple, J., Ferguson, C. and Kang, D. (2009), ''Corporate governance and misappropriation'', *Journal of Forensic and Investigative Accounting,* 1(2):1

Cho, D.S. and Kim, J. (2007), ''Outside Directors, Ownership Structure and Firm Profitability in Korea'', *Journal Compilation at Blackwell Publishing Ltd.* 15:234-250

Coleman, K. (2007), ''Corporate governance and firm performance in Africa'', A dynamic panel data analysis'', *Paper prepared for the International Conference on Corporate Governance in Emerging Markets.*

Defond, M.L., Hann, R.N. and Hu, X. (2005), ''Does the market value financial expertise on audit committees of boards of directors?'', *Journal of Accounting Research,* 43(2):153-193.

Demsetz, H. and Lehn, K. (2004), The Structure of Corporate Ownership'', *Journal of Pokitical Economy,* 93:1155-1177

Deakin, S. and Hughes,A. (1997), ''Comparative Corporate Governance: An Interdisciplinary Agenda'', In enterprise and Community: New Directions in Corporate Governance, Deakin, S and Hughes, A. (eds.), Oxford, UK, Blackwell Publishers.

Gompers, P., Ishii, L., Metrick, A. (2003), ''Corporate Governance Andequity Prices'' Quarterly *Journal of Economics*, 118:107-155

Howard, L. (2000), *Auditing,* 14th edition, London, ebis and m&e press.

Inyang, B.J. (2009), ''Nurturing Corporate Governance Syystem: The Emerging Trends in nigeria'', *Journal of Business Systems, Governance and Ethics* 4 (2):1-13

Jensen, M.C. (1993), ''the modern industrial revolution, exit, and the failure of internal control systems'', *Journal of Finance,* 48 (3):831-880

Kajola, S. (2008), ''Corporate Governance and Firm Performance'', *European Journal of Economics, Finance and Administrative Sciences* ISSN 1450-2275 Issue 14.

Khatab, H., Masood, M., Zaman, K., Saleem, S. and Saeed, B. (2011), ''Corporate Governance and Firm Performance: A Case Study of Karachi Stock Market'' *International Journal of Trade, Economics and Finance* 2(1)

Klein, A. (2002), ''Audit Committee, Board of Director Characteristics and Earnings Management'', *Journal of Accounting and Economics,* 33:375-400

Laib, A.D. Naseem,M.A. Rehman, R.U. and Niazi, G.S.K. (2011), ''Corporate Governance and Firm Performance a Case Study of Pakistan Oil and Gas Companies Listed in Karachi stock Exchange'' *Global Journal of Management and Business Research,* 11:8

McDaniel, L.S. Martin, R.D. and Maines, L.A. (2002), ''Ecaluating financial reporting quality: the effects of financial expertise vs. financial literacy'', *The Accounting Review, 77(4):139-167.*

Moriceau, J.L. (2004), ''What can we learn from a single case like Enron'', *Critical Perspectives in Accounting,* 16(6):787-796.

Nganga, S., Jain, V. and Artivor, M. (2003), ''Corporate Governance in Africa: A Survey of Publicly Listed Companies'', *Nigerian Stock Exchange Fact Book,(2006)*, Lagos. OECD, (2004), *OECD Principle of corporate governance,* http://www.oecd.org/dataoecd/32/18/31557724 retrieved 25/05/2013

Oyediran, O. (2003), ''Challenges to corporate governance in Nigeria: Issues in corporate governance'', *Financial Institution Training Centre, Lagos.*

Pass, C. (2002), ''Corporate Governance and the Role of Non-Executive Directors in Large UK Companies: An Emperical Study'', *Working Paper* Series. Rosenstein and Wyatt (1997),now now

Sanda, A., Mikailu, A.S. and Garba, T. (2003), Corporate Governance Mechanisms and Firm Financial Performance In Nigeria'', *AERC Research Paper* 149 Nairobi

Sarens, G., De Beelde, I. and Everaert, P. (2009), ''Internal audit: a comfort provider to the audit committee'', *The British Accounting Review,* 41(2):90-106

SEC (2003), *Disclosure Required by Sections 406 and 407 of the Sarbanese, Oxley ASct of 2002, Release Nos 33-8177;34-47235,* Washington, DC, Securities and Exchange Commission.

Suberu, O.J. and Aremu, O.S. (2010), ''Corporate Governance And Merger Activity In The Nigerian Banking Industry'' Journal Of Economics, 1(2):91-97

Tricker, R.I.(1994), *International corporate governance:text readings and cases,*Singapore, Prentice-hall

Uadiele, O. (2010), ''Impact of Board Structure on Corporate Financial Performance in Nigeria'', *International Journal of Business and Management* 5(10):155-166

Wikipedia, G. (2007), ''Nigerian Universities and the World ranking'', *The Guardian Newspapers,* May 25:16-17

Williams I. (2001), *Corporate Finance,* 2nd edition, Canada, Steve mocnfer publishers

Wolfensohn, J. (1999), ''Corporate governance is about promoting corporate fairness, transparency and accountability'', *Financial Times,* 21st June.

Xie, B., Davidson, W.N. and DaDalt, P.J. (2003), Earnings management and corporate governance: the role of the board and the audit committee'', *Journal of Corporate Finance, 9(3):*295-316.

Young, S. (2000), ''The increasing use of non-executive directors: its impact on UK board structure and governance arrangements'' *Journal of Business Finance and Accounting,* 27(9&10):1311-1342.

(Zajac, E.J. and Westphal, J.D. (1996), ''Director Reputation, CEO-Board Power, and the Dynamics of Board Interlocks'' webuser.bus.unich.edu/westjd/Articles/Director_Reputation.pdf. 13th June 2013.

Table 4.1 Perceived Impact of Audit Committee on Corporate Governance and Performance of Quoted Non Financial Companies on the Nigerian Stock Exchange.

S/N	PERCEIVED IMPACT	NO	SA(5)	A(4)	NI(3)	DA(2)	SDA(1)	TOTAL	MEAN
1	Provides an additional channel of communication	216	130(650)	70(280)	5(15)	7(14)	4(4)	963	4.46
2	Checks the excesses of the Board	216	78(390)	100(400)	6(18)	28(56)	4(4)	868	4.02
3	Helps to detect fraud	216	70(350)	98(392)	5(15)	37(74)	6(6)	837	3.88
4	Strengthens the independence of the external auditor	216	100(500)	90(360)	4(12)	10(20)	2(2)	894	4.14
5	Improves the net profit margin of the firm	216	60(300)	93(372)	5(15)	47(94)	11(11)	794	3.67
6	Significantly improves the Earning Per Share	216	55(275)	83(332)	10(30)	48(96)	20(20)	753	3.49
7	Significantly affects the dividend per share.	216	56(280)	96(384)	6(18)	48(96)	10(10)	788	3.65
8	Promotes increasing public confidence in the credibility and objectivity of published financial statements, thus boosting corporate performance.	216	99(495)	82(328)	15(45)	12(24)	8(8)	900	4.17
9	Presence of financial experts in the committee strengthens the reporting and auditing functions in the firm.	216	100(500)	90(360)	15(45)	8(16)	3(3)	924	4.28
10	Provide oversight functions on effective internal control, reliable financial reporting and thus significantly boosts corporate performance.	216	63(315)	88(362)	5(15)	40(80)	20(20)	792	3.66
11	Significantly reduces financial imprudence, unethical practices and material misstatements through its oversight role.	216	66(330)	90(360)	4(12)	44(88)	18(18)	808	3.74
	Average								3.92

Source: Field survey 2013. SA=STRONGLY AGREE; A=AGREE; NI=NO IDEA; DA=DISAGREE; SDA=STRONGLY DISAGREE