AUDIT COMMITTEE TRAITS AND THE GROWTH OF FIRMS' REVENUE: EVIDENCE FROM NIGERIAN BANKING INDUSTRY

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Abstract
The role audit committee traits play in promoting revenue growth of banks has been well established in developed economies; however, there seems to be a literature gap on what is known about this research theme in developing economy like Nigeria. Given the literature gap, this paper identified two (2) audit committee traits (audit committee diversity and meetings) and the roles they play in promoting revenue growth of publicly quoted commercial banks in Nigeria. Ex-post facto research design and secondary data were employed; data were obtained from audited financial statements of fifteen (15) commercial banks from 2011-2020. The panel data obtained was dissected using descriptive and inferential statistical tools. Specifically, the fixed and random effect panel data regression indicated that audit committee diversity positively significantly affects revenue growth of banks. Contrarily, we found a negative insignificant effect of audit committee meetings on banks' revenue growth; this result corresponds with agency theory such that increased meetings of audit committee would lead to increased agency cost to bank. In line with the finding, we advocated decreased number of meetings of audit committee, since it has shown to negatively insignificantly affects banks' revenue growth. On the other hand, diversity in the audit committee needs to accommodate the current and future multiplicity of members (male and female members), as well as increasing their numbers since it has shown to positively significantly affects banks' revenue growth.
Keywords: *Audit committee traits; Banks' revenue growth; Commercial banks; Audit committee diversity; Audit committee meetings.*

Introduction

The disclosure in annual reports and accounts is fundamentally one of the tasks of the board of directors; though carried out by management on behalf of the board. At the culmination of this task, an independent examiner (known as the external auditor – audit committee) verifies the numbers in the annual reports and accounts to ensure the reliability and trustworthiness of information. Thus, audit committee plays a central role in financial reporting and in assessing the growth of the firm. In the views of Osevwe-Okoroyibo and Emeka-Nwokeji (2021), audit committee traits enhance financial reporting outcomes (like performance and growth in revenue) on grounds of reliability and trustworthiness of information.

Bouaine and Hrichi (2019); and Dakhlallh, Rashid, Abdullah and Al Shehab (2020) asserted that the primary aim of the audit committee is to watch over the financial reporting and auditing processes, as well as monitoring management inclination to tweak numbers denoted in financial statement. Mohammed, Flayyih, Mohammed and Abbood (2019); and Orjinta and Ikueze (2018) see audit committee as members of the firm who take active roles in controlling the financial reporting and auditing processes of the firm. Equally, audit committee traits are the attributes describing audit committee; these traits can take numerous forms like audit committee meetings, size, expertise, diversity in gender, independence, etc (Qeshta, Alsoud, Hezabr, Ali & Oudat, 2021; and Okeke, 2021).

On the other hand, the firm revenue growth is the nature of the progression in the profit or income of the firm as compared with the present and past. Firm revenue growth encompasses but not limited to changes in the growth of turnover, profits or incomes. Prior studies had found a relation between audit committee traits and firm performance; however, there is lack of empirical studies on the relationship between audit committee traits (like audit committee diversity and meetings) and firms' revenue growth in Nigeria. Given the above identified gap, this study was carried out to assess the relationship between audit committee traits and firms' revenue growth of publicly quoted commercial banks in Nigeria from 2011-2020.

The remaining part of the paper is divided as follows: review of related literature, materials and methods, results, conclusion and recommendations.

Review of Related Literature

Conceptual Reviews

Audit Committee Traits

The need for audit committee in a firm cannot be overemphasized; however, despite audit committee presence in the firm, financial scandals have continued to thrive in the business environment, which have led to the demise of most firms, thus raising concern on the effectiveness of audit committee (Musfiqur, Mohammad & Chaudhory, 2019; and Alqatamin, 2018). The sole question of this study is whether certain audit committee traits which are linked with audit committee effectiveness lead to improved firm revenue growth in Nigerian banking subsector.

The traits refer to the attributes that portray the nature of the audit committee. According to Glover-Akpey and Azembila (2016); and Zraiq and Fadzil (2018), the traits can take diverse variants like meetings, size, independence, diversity, remuneration, among others. The audit committee traits explored the most in the literature relates to audit committee size, audit committee independence, audit committee remuneration, audit committee and financial expertise (Mohammad, Kanon & Hossain, 2021; Baioco & José, 2017; and Bansal & Sharma, 2016).

Furthermore, to the researcher knowledge there is paucity of empirical studies on the relationship between audit committee traits like audit committee diversity and audit committee meetings and their relationships with firm revenue growth of deposit money banks in Nigeria. Given the lack of studies in this area, this study seeks to assess the relations between audit committee traits (audit committee diversity and audit committee meetings) and firm revenue growth of deposit money banks in Nigeria from 2010-2020.

Firm Revenue Growth

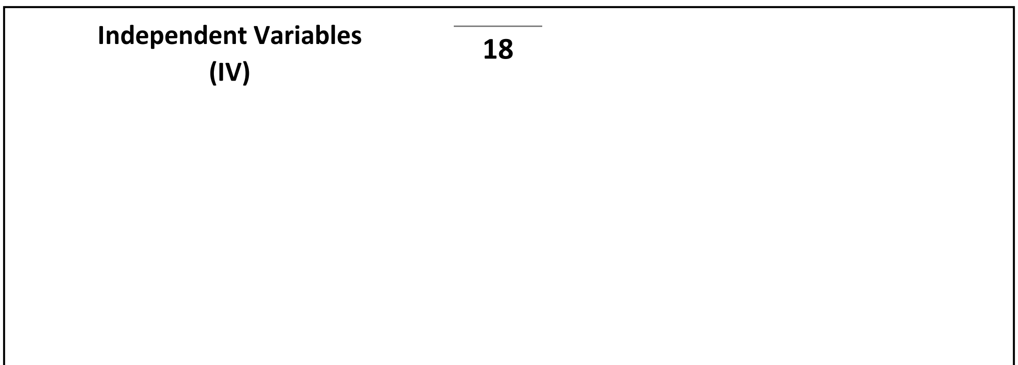
Realistically, growth is vital to all firms, reason being that attracting and retaining quality management, being economically robust, aiding competitive advantage, productivity, market share and meeting consumers' needs are specific goals firms seek to realize. For corporate firms to realize growth, certain actions are requisite; recognizing operational problems, targets, products quality (Galal, Soliman & Bekheit, 2022)

Galal, *et al* (2022) observed that revenue growth is what most firms experience over a given accounting period. Firm revenue growth assesses the level of efficiency of management in putting into use the resources of the organization (Gala, *et al* 2022; and Rahman, Meah & Chaudhory, 2019). Firms' revenue growth was gauged by means of percentage change in the revenue growth rate of current year revenue minus prior year's revenue scaled by prior year's revenue. This measure of firm revenue growth is likened to that used in the study of Galal, *et al* (2022).

Theoretical Underpinning

This study is centered on the agency paradigm, which was advocated by Jensen and Meckling. The paradigm advocates the relationships between self-interest of wealth owners (principals) and management (agents); it advocates that the agents (management) can strain information they disclose to the principals during the business processes, resulting to information asymmetry between the principals and agents, resulting to what is termed as the 'agency conflict'. The duty of the audit committee therefore is to offer credible information during the audit process for the principals, resulting in effective management (Jensen & Meckling, 1976), and conceivably growth of the firm.

In furtherance of the audit committee duty, dissemination of reliable and more trustworthy information to shareholders may reduce agency conflict with interests of shareholders being protected and maximized. The justification for the use of agency paradigm is connected with the fact that to reduce information asymmetry or agency conflict, owners of wealth employs the services of the audit committee in order for them to know whether the firm is growing or declining. Thus, the principals require the services of the audit committee for them to be reassured that their wealth is maximized or in safe hands with the agents. Consequently, we thus conceptualize the model of audit committee traits and firm revenue growth as follows:



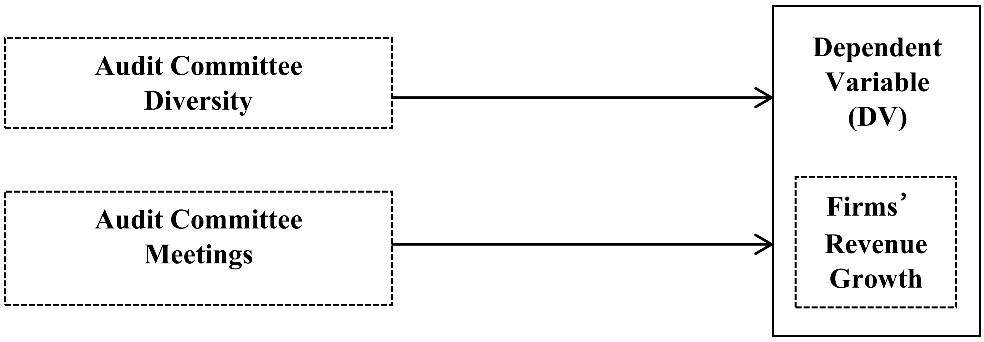


Figure 1: Conceptualized Study Model
Source: Researcher (2022)

Materials and Methods

In this story, we evaluated the connection between audit committee traits and the growth of firms' revenue among publicly quoted Nigerian commercial banks. *Ex-post facto* research design and a population of twenty-three (23) commercial banks publicly quoted on the Nigerian Exchange Group (NGX) were employed. The study used the purposive sampling approach in selecting fifteen (15) commercial banks. Secondary data of audit committee meetings, and diversity (independent variables) and revenue growth (dependent variable) were obtained and computed from annual financial statements from 2011-2020. The study's empirical model is as follows:

$$RevGrr = f(Acd, Acm) \quad eq.1$$
$$RevGrr_{it} = \beta_0 + \beta_1 Acd_{it} + \beta_2 Acm_{it} + \mu_t. \quad eq.2$$

Notably, *RevGrr* is revenue growth rate of commercial banks (denoted as existing year's revenue - prior year's revenue scaled by prior year's revenue); *Acd* is audit committee diversity (proportion of males and females in the audit committee); *Acm is* audit committee meetings (number of times members of audit committee attend meetings); ,β_1, β_2 is model regressors; while μ_t is the stochastic error term.

The empirical model of the study is likened to those employed in the studies of Galal, *et al* (2022); and Kipkoech and Rono (2016). Analysis was done using descriptive and inferential statistical tools. Specifically, the basis for assessing whether a connection exists between the audit committee traits (audit committee meetings and diversity) and firms' revenue growth was based on the fixed effect (FE) and random effect (RE) panel regression. A-priori expectations are that audit committee traits will lead to an increase in firms' revenue growth.

Results

Table 1: Descriptive Statistics Summary

Parameters	*RevGrr*	*Acd*	*Acm*
Mean	3.8433	2.7827	0.7943
Maximum	17.110	9.0000	7.0000
Minimum	-31.66	0	4.0000
Standard Deviation	5.4093	2.6673	0.1901
Skewness	0.4023	0.4863	0.3932
Kurtosis	3.0330	2.4936	2.7541
Counts	150	150	150

Source: Computed via STATA 13.0 Application

Table 1 revealed that all the variables (*RevGrr, Acd* and *Acm*) had no negative average; this may be due to the period investigated which is characterized by the transition to the international financial reporting standards (IFRSs) for most of the commercial banks. The standard deviation is 5.4093 (*RevGrr*), 2.6673 (*Acd),* and 0.1901 (*Acm*). Besides, audit committee traits (committee meetings and diversity) showed no signs zero (0) skewness and more so, all the variables skewed to right; an indication of that the audit committee traits moved in the same direction with the revenue growth of commercial banks. In addition, the variables showed signs of normal distribution since kurtosis values are nearer to three (*RevGrr* = 3.0330; *Acd*=2.4936; *Acm*=2.7541). Impliedly, there is evidence of normal distribution in the data of audit committee traits and firms' revenue growth.

Table 2: Summary of Pearson Correlation

	RevGrr	*Acd*	*Acm*
RevGrr	1.0000		
Acd	0.0439	1.0000	
Acm	-0.0081	-0.0068	1.0000

Source: Computed via STATA 13.0 Application

The result of Pearson correlation coefficients (PCC) revealed that audit committee trait (*Acd*) is positive while *Acm* is negative; these results are clear indications that while there is positive connection between *Acd* and *RevGrr,* a negative connection exists between *Acm* and *RevGrr*. Notably, the peek PCC is between *RevGrr* and *Acd* (0.0439); this clearly suggests the absence of multi-collinearity problem in the empirical model of the study.

Table 3: Result of Variance Inflation Factor

Parameters	**VIF**	**1/VIF**
Acd	1.1834	0.8450
Acm	1.1634	0.8595
VIF Mean	1.1734	

Source: Computed via STATA 13.0 Application

The VIF mean is 1.1734 and is not greater than mean VIF benchmark of 10; this signifies non-existence of multicollinearity issue in the study's empirical model. In view of the results in Tables 1-3, we carried out fixed effect (FE) and random effects (RE) panel data regression as presented in Table 4

Table 4: Fixed Effect (FE) and Random Effect (RE) Panel Regression Results

Estimator	**FE (Obs.=150)**		**RE (Obs. =150)**	
Variable	Coef.	Prob.	Coef.	Prob.
Acd	0.0440*	0.0012	0.0446*	0.0000
	(3.86)		(3.95)	
Acm	-0.0453	0.3850	-0.0443	0.2791
	(-1.74)		(-1.90)	
_Cons	0.0020	0.0433	0.0019*	0.0442
	(2.88)		(2.79)	
R-Sq. (within)	0.8360		0.8341	
R-Squared (between)	0.6618		0.7152	
R-Squared (overall)	0.8545		0.8564	

Source: Computed via STATA 13.0 Application (Wald=4.93; Prob.=0.1471; Hausman Prob. =0.1834)

Table 4 captured the FE and RE panel regression results. In Table 4, the R^2 is 0.8545 for FE and 0.8564 for RE, signifying that audit committee traits (*Acd* and *Acm*) explained approximately 85.6% of the systematic variation in revenue growth of commercial banks. The result showed that *Acd* has the highest beta coefficient when RE is employed; beta coefficient for RE is 0.0446 and it is significant at 0.05% level.

The t-test statistics for *Acd* is 3.86 (prob. = 0.0012 < 0.05); an indication that audit committee diversity positively significantly affects revenue growth of banks. On the other hand, t-test statistics for *Acm* is -1.74 (prob. = 0.3850 > 0.05); an indication of a negative insignificant effect of audit committee meetings on revenue growth of banks. This result agrees with agency paradigm that increased meetings of audit committee would lead to increased agency cost to banks. These results agree with prior studies carried out by Galal, *et al* (2022) and Kipkoech and Rono (2016).

Conclusion and Recommendations

Empirical evidences suggest that audit committee traits contribute to the growth of firms' revenue; however, there are mixed findings as regards this research theme in both developed and developing countries. Notwithstanding the mixed results in the accountancy literature, we found that empirical researches are not forthcoming on how certain audit committee traits such as diversity and meetings contribute to commercial banks' revenue growth in Nigeria. Data were obtained and computed from the annual financial statements of thirteen (13) commercial banks publicly quoted on NGX from 2011-2020.

In specific, the result of fixed and random effect panel data regression established that while audit committee diversity positively significantly affects banks' growth in revenue, audit committee meetings was found to negatively insignificantly affect banks' growth in revenue; the negativity in the connection between audit committee meetings has been partly explained by the agency paradigm which was used in this study. On the basis of the findings, we advocated decreased number of meetings of audit committee, since it has shown to negatively insignificantly affects banks' growth in revenue. Also, diversity in audit committee needs to accommodate current and future multiplicity of members (male and female), as well as increasing their numbers since it has shown to positively significantly affects banks' growth in revenue.

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