The Moderating Effect of the Audit Committee on the Relationship between Corporate Governance and Financial Performance: A Conceptual Review

Ali Alhaji Goni Mustapha[1], Aminu M. Bello[2], Ali M. Garba[3] & Musa Ibrahim Gobe[4]
[1,2,3,4]*Department of Business Administration and Entrepreneurship, Bayero University, Kano PMB 3011, Kano, Nigeria*

***Abstract*: The effect of corporate governance on the organization's financial performance has been a crucial issue since the last global financial distress. Many accounting scandals and numerous cases of corporate governance malpractice brought about more attention to corporate governance. The issue is a serious factor in economic growth and financial market steadiness, also enormous body of literature has developed concerning the link between corporate governance and financial performance, but the study finding produced inconsistent results. Therefore, the main purpose of this study is to investigate the moderating effect of the audit committee on the relationship between corporate governance and financial performance.**

***Keywords:* Corporate Governance, Financial Performance, Audit Committee.**

I. INTRODUCTION

The effect of corporate governance on the organization's financial performance has been a crucial issue since the last global financial distress. Many accounting scandals and numerous cases of corporate governance malpractice brought about more attention to corporate governance. The issue is a serious factor in economic growth and financial market steadiness (Datta, 2018).The case of Oceanic Bank, Plc (2010), Intercontinental Bank, Plc, Enron (2001), WorldCom (2002), Cadbury Nigeria, Plc (2006) and Lehman Brothers (2008) all are evidence of corporate collapse resulting from poor financial performance practice and governance failure. Also the notorious collapse of Bank of Credit and Commercial International (BCCI) in 1991 and the East Asian financial crisis of 1997 that severely affected the economies of Thailand, Indonesia, South Korea, Malaysia and Philippine, are other examples the Russian financial crisis of 1997, the Nigerian banking crisis of the 1990s and 2000s, among others, all question the effects of corporate governance as a means of increasing bank performance and averting potential distress and failure (Yakubu, 2016). The effects of these scandals contributed a great deal to the credibility crisis rocking the accounting profession.

The Central Bank of Nigeria had in 2004 embarked on a policy-induced consolidation exercise to strengthen banks' financial performance by positioning them to play very pivotal roles in driving economic development through a consolidation exercise. The CBN had ordered banks to increase their shareholders' fund and raise their capital base from two billion Naira to a cash reserved requirement of twenty five billion Naira.This prompted a significant reduction in the number of banks. This decline was as a result of the inability of the existing banks to meet up the stipulated amount financially with the terms of the new policy. The CBN's policy triggered amassive combination of banks. Immediately after the consolidation exercise in 2005, the number of banks in the country stood at twenty five (25) from eighty nine (89). Shortly after that, there was a further consolidation of Inland Bank with First Altantic Bank, Plc (FinBank, Plc) and Stantbic Bank Limited and IBTC Chartered Bank, Plc (Stantbic-IBTC Bank, Plc). However, with the withdrawal of the operating licenses of three banks that failed to show the ability of recapitalizing by a mandated deadline of 30th September, 2011 given by the CBN, the number of banks by the end of 2013 became 23.

Similarly, according to the Nigerian Deposit Insurance Corporation (NDIC) (2018), CBN withdraw the operating license of Skye Bank and approved that a bridge bank be established and that led to Skye Bank to became Polaris Bank. Also, Diamond Bank had recently (19th December, 2018) faced the possible withdrawal of its license due to its non-performing loans of over N150billion and the resignation of three of its directors and the chairman of the board of directors. However, it was able to prevent this occurrence by entering into a merger arrangement with Access Bank (Balagun, 2019). Despite the significant improvement in the sector, it is on record that the industry experienced a high level of competition coupled with political instability and inconsistencies in policy implementation, thus leading to a rapid decline on the level of profitability and financial performance of banks (Soludo, 2006; Olokoyo, 2012; Bebeji, 2013 and Kareem, Akinola & Oke, 2014).

Although good financial performance may not guarantee the perpetual existence of corporate organizations, however, it will minimize the occurrence of business collapse arising from misleading financial performance. That is why the past and ongoing legal reforms on corporate governance and financial performance across the world are in response to corporate failure and financial crisis. Performance is the result of the fulfillment of the tasks assigned. In other words, organizational financial performance describes how individuals in the organization try to achieve the goal and objectives of such organization (Abubakar, Sulaiman & Haruna,2018).Financial performance illustrates the magnitude of the results in a process that has been achieved compared with the company's goal. Financial performance is a determinant of an organization's income profits and increase in value, as evidenced by the appreciation in the entity's worthiness (Asimakopoulos, Samitas & Papadogonas, 2009). Financial performance refers to the act of performing financial activity. In a broader sense, it refers to the degree to which the financial objective being or has been accomplished. It is the process of measuring the result of the firm's policies and operation in monetary terms (Datta, 2018).

Measures of financial performance fall into investor and accounting returns. The basic idea of investor returns is that the return should be measured from the perspective of shareholders, e.g. share price and dividend yield. Accounting returns focus on how firm earnings respond to different managerial policies, which can be measured using different accounting ratios (Alan, 2008).

Corporate governance is recognized as one of the most important implications to build market-place confidence and attract positive investors in the organization specifically and the economy generally. Promoting good corporate governance standards is considered to be very important in attracting investment capital, reducing risk and developing firms' financial performance. Corporate governance has become a topical issue, which has attracted the attention of a number of academics and practicing managers. Corporate fraud all over the world in the recent past years has clearly shaken investors' confidence and historical antecedents in financial practice. According to Wilson (2011, cited in Ofuani, Sulaimo & Adebisi, 2018),corporate governance is "the manner in which corporations are directed, controlled and held to account with special concern for effective leadership of the corporations to ensure that they deliver on their promises as the wealth creating organ of the society in a sustainable manner. Corporate Governance is the system by which organizations are directed and controlled (UCadbury Report, 1992, cited by Datta, 2018).

The effect of corporate governance on organizational financial performance is a crucial issue since the last financial distress over the world. Despite the stringent governing framework, the organization performs a weak role in practicing corporate governance code of conduct. According to Organization of Economic Community and Development (2004), "Corporate governance creates a set of relationship between a company's management, its board, its shareholders and other stakeholders by providing a structure through which the objectives of the company are determined and the means of attaining the objectives and monitoring the determined performance.

Accounting scandals show that managers sometimes mislead stakeholders about the firms' financial performance by publishing financial reports that do not provide a true representation of company value. As a result of these misrepresentations by managers, the organization must constitute a proactive, transparent and trustworthy audit committee to checkmate the activities of managers within the organization (Foyeke, Olajide, Oluku & Kolade 2016).

Audit committee as a moderating variable to the relationship between corporate governance and the firm's financial performance refers to the governance body that is charged with the oversight of the organization's audit and control functions. The committee are identified means of corporate governance that reduce the potentials for fraudulent financial reporting and disclosure of accounting information. The audits are responsible in overseeing the organization's management and internal and external auditors to protect and preserve shareholders' equity and interest (Institute of Internal Auditors, 2004).

The World has witnessed many bank failures over the time. This has resulted in dozens of bankruptcies and the collapse of firms in other sectors of the economy. This has precipitated the growing interest in corporate governance studies and practices by academics, regulatory authorities and other relevant stakeholders. Banks and other financial intermediaries are at the heart of the world's recent financial crisis and the deterioration of their asset portfolios largely due to corporate governance problems, as one of the main structural sources of the financial crisis (Musa, 2018). To a large extent, this problem was as a result of poor corporate governance in the countries' banking institutions and industrial group. This poor corporate governance, in turn was very much attributable to the relationship among government, banks and other big businesses as well as the organizational structure of the industry.

Africa, particularly Nigeria, had its own share of such contagious financial crises. Financial institutions in Nigeria witnessed untold financial distress in which banks that were considered healthy by investors happened to be the most distressed (Abdulazeez, Ndibe and Mercy, 2016). This made the apex bank (CBN) take a bold step or decision in invigorating the banking sector through the stipulation of a N25 billion capital base for all commercial Deposit Money Banks (DMB's).

It was stated that the banking industry consolidation posed additional corporate governance challenges arising from integration processes, Information Technology and cultural differences. This problem still remains un-resolved among consolidated Nigerian DMB's, by increasing the level of fraud (Akpan, 2007, as cited by Musa, 2018). Furthermore, corporate governance in many of the banks failed because boards ignored these practices for reasons, including being misled by the executive management, participating themselves in obtaining unsecured loans at the expense of depositors and not having the qualifications to enforce good corporate governance on bank management (Sanusi, 2010).

Moreover, the deterioration of financial performance by many financial sectors, especially banks, will become a stumbling block for many investors in taking part for investment decision. However, on the larger population, people may remain irrelevant in involving for banking financial transaction and other relevant financial services rendered by banks and will lose confidence largely due to the continuous closing shops by many banks and merging one bank to the other. This study is very much important because it will investigate the major factors that contributed in hindering banks for non-financial performance, because if this issue is not well addressed, it will lead to continuous banking failure that would generate negative consequences in the economic performance of the country.

There is now ample research on corporate governance and financial performance, especially in developed countries. Shahzad, Rutherford and Sharfman (2014), Benlemlih (2015), Lins, Servaes and Tamayo (2016), Oliver and Buchwald (2016), Srivastav and Hagendorff (2016), Mohamad and Arezoo (2016), Hasan, Kobeissiand Liu (2016), Shi, Connelly and Hoskisson (2017), Honggowati, Rahmawati, Aryani and Probohudono (2017), Amana, Beekes and Brown (2017), Karaca and Korkmaz (2017), Raoa (2017), Elgammal, El-Kassar and Messarra (2017), El-Kassar, Elgammal and Fahed (2017), Miric, Todorovicand & Janicijevic (2018), Shariff, Abidin & Bahar (2018), Nazir and Nazir (2018), Hussain and Abdul Hadi (2018), Ormazabal (2018), Alnabsha, Abdou, Ntim & Elamer (2018), Pamungkas, Ghozali and Achmad (2018), Gupta and Jain (2018), Narkchai, Fadzil & Thungwha (2018), Singh, Tabassum, Darwish & Batsakis (2018), Saha (2018), Jamali and Karam (2018), Nurharjanto, Haryono & Suhardjanto (2018), Datta (2018), Gerged, Cowton & Beddewela (2018), Aslam, Ahmad, Amin, Usman & Arif (2018), Al-Bassam, Ntim,Opong & Downs (2018),Maruhun, Abdullah, Atan & Yusuf (2018), Nuswantara, Maulida & Maulidi (2018), Asmar, Alia & Ali (2018),Anandasayanan (2018), Azhar and Mehmood (2018), Arora and Bodhanwala (2018),Madanoglua, Kizildag & Ozdemir (2018), Butt, Nazir, Arshad & Shahzad (2018),Muazaroh and Mongid (2018) and Bennett (2018). The whole findings of the above researches showed a positive relationship between corporate governance and financial performance. However, so many studies were also conducted in developed countries and their results clearly showed a negative relationship, as in the work of Aggarwal (2013), Manzaneque, Priego and Merino (2014), Abbadi, Hijazi and Al-Rahahleh (2016), Shafie & Khai (2016), Shawtarl, Salemb, Hussaina, Alaeddina & Bin Thabit (2016), Hussain and Abdul Hadi(2017), Vu and Nguyen (2017), Elmagrhi, Ntim and Wang (2017), Ngoc (2018), Cunha and Rodrigues (2018), Chiang and Yu (2018),Cekalovaand & Kocmanova (2018) and Nguyen (2018).

Furthermore, in emerging economies like that of Nigeria and other African countries a lot of researches were conducted on corporate governance and financial performance. Some of the findings showed a positive relationship,as in the work of Ndiwalana, Sekakubo and Lwanga (2014), Xavier, Shukla, Oduor & Mbabazize (2015), Ndibe and Mercy (2016), Kwame and Mensah (2016), Foyeke, Olajide, Oluku & Kolade (2016), Margaret and Njenga (2017), Lasisi (2017), Odoemelam and Okafor (2018), Tshipa, Brummer, Wolmarans & Toit (2018), Odeleye (2018), Isa and Farouk (2018), Waweru and Prot (2018),Oloyede, Olaoye & Oluwaleye (2018), Ayodele and Afolabi (2018), Momanyi, Ragama & Kibati (2018), Zuva and Zuva (2018), Esther and Henry (2018), Grace, Vincent & Evans (2018), Nwaiwu and Joseph (2018). However, in the same angle many of the researches were conducted in emerging economies of Africa and Nigeria particular on corporate governance and financial performance showing a negative relationship in their respective findings, as in the work of Olarinoye and Ahmad (2016), Shafie and Khai (2016), Oshoand & Ogodor (2018), Ofuani, Sulaimon & Adebisi (2018), Anazonwu, Chinedu & Gunardi (2018), Abdulazeez, Baba, Fatima & Abdulrahaman (2018) and Abubakar, Sulaiman & Haruna (2018).

However, other researches were conducted on non-financial institutions and suggested for the future studies to completely conduct research from financial institutions like Deposit Money Banks (DMBs) rather than non-financial institutions, as in the work of Mohamad and Arezoo (2016), Arora and Bodhanwala (2018) and Nwaiwu and Joseph (2018). Moreover, some studies recommend extending the period of the studies, as in the work of Ahmed and Hamdan (2015), Hong Vu and Nguyen (2017), as well as in that of Odoemelam and Okafor (2018).This opens the door for this research to enlarge the year as well as the corporate governance characteristics from one variable to three dimensions. Husnin, Nawawi & Salin (2016), Arora and Bodhanwala (2018) suggested that the future studies should increase the samples size, as that would help in making generalization in the future research findings.

All of the aforementioned studies explored the influence of corporate governance on financial performance in both developed countries and emerging economies of African countries from one sector to the other. However, no research has been reported on the moderating effect of audit committee on the relationship between corporate governance and financial performance of listed Nigerian Deposit Money Banks.Most importantly, the study will also introduce a moderating variable because of the inconsistent findings of the previous researches, as also suggested by Baron and Kenny (1986).

It is in the light of the above that this research work will study the moderating effect of audit committee on the relationship between corporate governance and financial performance of Nigerian Deposit Money Banks. By introducing the moderator and enlarging the sample size as well as increasing the study period, the research will immensely contribute to the body of existing literature and, of course, theoretically by using the agency theory in another dimension will extend the body of existing literature.

II. LITERATURE REVIEW

2.1 Financial Performance

Performance is the result of the fulfilment of the task assigned and describes how individuals try to achieve goals in an organization (Abubakar, *et al.* 2018). Financial performance refers to the act of performing a financial activity. In a broader sense, financial performance refers to the degree to which a financial objective is being or has been accomplished. It is a measure of how well a firm can use assets from its primary mode business and generate revenues (Musa, 2018). It is the process of measuring the result of the firm's policies and operations in monetary terms (Datta, 2018). Financial performance is the measure of the financial health of an organization and shows the performance of the executive leadership of the company (Ibrahim, 2018).

However, financial performance can be measured either on investor or accounting returns. Investors return should be measured from the perspective of shareholders e.g. share price and dividend yield while accounting return focuses on how firms profit respond to different managerial policies, which can be measured using different accounting ratios, e.g. Return on Assets (ROA), Return on Equity (ROE), Return on Sale (ROS), Return on Investment (ROI), Earning Per Share (EPS), Profit Margin and Return on Capital Employed (ROCE), etcetera. Accounting measures indicate the actual and realized performance of an organization derived in the financial statements. However, this study will use Return on Asset (ROA) as a measure of financial performance.

2.2 Corporate Governance

The Organization for Economic Corporation and Development (2004) defined corporate governance as a system that specified a given division of competencies and responsibilities between parties. It is the relationship that exists between the participants and defines the direction and performance of a corporation and other bodies like the chief executive officer, management, board of directors and shareholders. On the other hand, corporate governance initially appeared to minimize conflict of interest between management and shareholder given the separation between ownership and control. Corporate governance is a technique and structure used to control the business exercises of the economic system of the organization towards expanding business triumph (Prasad, 2011).

Corporate governance arranges not only the internal administration of the firms; it is also connected with a firm's relationship with its suppliers, customers and other stakeholders. The developing need for stocks and other assets from organizations expand the vitality of corporate governance around the planet. Corporate governance varies from entity to entity and the geographical region of countries. Its ultimate goal is to standardize, gain a high rate of return and prevent financial structure in attaining their targets at the expense of the investors. It must be acknowledged that feeble corporate governance or non-compliance of its doctrine could prompt financial abuses, corporate frauds and generate heavy losses for the companies (Hussain & Abdul Hadi, 2017). Another definition of corporate governance is given by Crespi, Cestona & Salas (2002) cited by (Musa, 2018) as the various method by which banks attempt to induce managers to implement values maximizing policies. They observed that these methods may be external to the firm as the market for corporate control or the level of competition in the product and the labour market. There are also internal mechanisms, such as disciplinary intervention by shareholders or intervention from the board of directors.

Based on the findings of the following studies, we put forward the hypotheses below:

H_1: Corporate governance has positive and significant influence on financial performance.

2.3 Moderating Role of Audit Committee

Firms form audit committees voluntarily as an important mechanism to monitor agency costs and improve the quantity as well as the quality of information that is disclosed for various corporate stakeholders (Saha, 2018). However, according to the agency theory, the existence of an audit committee can help firms to reduce operation cost, particularly if it is dominated by non-executive directors. It is considered to be an important element for the board of directors to internally control decision making and enhance the quality of information flow between owners and managers (Fama, 1980, Arcay & Muino, 2005). Empirically, Ho and Shun (2001), Barako et al. (2006), Al-Shammari and Al-Sultan (2010) and Samaha et al. (2015) find that the presence of an audit committee has a positive impact on corporate disclosure behaviour. It is the requirements of some Stock Exchanges that the audit committee for the listed companies be made up of three members (Al-Sa"eed & Al-Mahamid, 2011). However, the Company and Allied Matter Act (CAMA) 1990 sec. 359 specifies the maximum number of audit committee members in Nigeria as six but it did not specify the minimum number. Bedard, Chtourou & Courteau (2004) have argued that when the "audit committee is large, the control and oversight functions over the accounting and financial processes increase." In agreement to this Anderson, Mansi and Reeb (2004) found that "audit committees" with a large size has the potential to protect and control the process of "accounting and finance by bringing in greater transparency." A very large "audit committee" can bring about the dispersion of responsibility and process losses (Karamanou & Vafeas, 2005). The essence of the audit committee is based on two strands of accountability; first, management's accountability to the board, second, board's accountability to shareholders.

2.3.1 Board Size and Financial Performance

Abdulazeez *et al.* (2016) examined the impact of corporate governance on the financial performance of all the listed deposit money banks in Nigeria for a period of seven (7) years (after consolidation). Data for the study were quantitatively retrieved from the annual reports and accounts of the studied banks. The Multi Co-linearity test was conducted via Pearson correlation and further confirmed through a VIF test. Regression was used to analyze the data and it was found that larger board size contributes positively and significantly to the financial performance of deposit money banks. The study, however, recommended among others that banks should increase their board size but within the maximum limit set by the code of corporate governance. However, the study considered only board size as a proxy or the dimension of corporate governance may be by including other variables. The result of the study will differ from the current findings.

Arora and Sharma (2016) conducted a study on corporate governance and firm performance in developing countries with evidence from India. The empirical analysis focuses on a large number of companies covering 20 important industries of the Indian manufacturing sector for the period 2001-2010. It investigated the corporate governance mechanism board size and measured it by firm financial performance ROA, ROE and Net Profit Margin (NPM) as accounting measures and market performance measures like adjusted Tobin's Q (TQ) and Stock Returns (SR). Moreover, the findings indicated that larger boards are associated with a greater depth of intellectual knowledge, which in turn helps in improving decision-making and enhancing performance. Several alternative specifications and estimation techniques were used for analysis purposes, including system generalized methods of moments, which effectively overcame the problem of endogeneity and simultaneity bias. It is concluded that firms of the developing world can possibly enhance their performance by implementing good corporate governance practices.

In a similar study, Njenga (2017) examined the effect of corporate governance on financial performance of the Nairobi Security Exchange (NSE) listed commercial and services firms. The specific objectives of the study included to determine the effect of board size on the financial performance of NSE listed commercial and services firms; to establish the influence of CEO duality on financial performance of NSE listed commercial and services firms and evaluate the effect of board composition on the financial performance of NSE listed commercial and services firms. The study adopted a correlation research design. The targeted population was the NSE listed commercial and services firms. The data was sourced from the listed firms' published annual statements for the period 2012 to 2016. The data was both quantitative and qualitative secondary data. In analyzing the quantitative data, the study used descriptive statistics while qualitative data was analyzed using content analysis. In addition, multiple regressions were used to determine the significance of each independent variable in affecting the financial performance of the said firms. From the study findings, financial performance as measured using ROA constantly and significantly increased over the study period. The average board size increased as follows: from four to nine over the five-year period which was a transformation of the firms from small to large board sizes. The listed firms had large board sizes, which were beneficial for their corporate performance because they had diverse expertise to help to make better decisions and were harder for their powerful CEOs to dominate. The trend of CEO duality among the twelve NSE listed commercial and services firms reduced over the five years. The reducing number of firms with CEO duality allowed for the separation of power and functions between their chairmen of the board, a non-executive director, and their CEOs while it increased accountability. The number of non-executive directors was significantly higher than executive directors over the five-year period and ensured board independence in character, judgment and action in the management of the NSE listed commercial and services firms. The regression analysis established that board composition contributed most to the financial performance of NSE listed commercial and services firms.

Saha (2018) conducted a study to explore the relationship between corporate governance and firm performance by considering the role of board and audit committee. Multiple linear regression analysis was used as the underlying statistical test on the dependent variables, ROA, ROE and TQ to test the association between the independent variables (board size, board independence, size of audit committee and audit committee composition) with firm performance. Homogeneous purposive sampling was used. The sample size of the study was 81 listed companies in DSE. The results of the study signified that board independence ratio and audit committee was statistically significant and had a positive impact on ROA and TQ. But it was not statistically significant in the case of firm performance indicator ROE in this study. In addition, board size was not statistically significant and had a negative correlation with firm performance due to group dynamics, communication gaps and indecisiveness of larger groups.

2.3.2 Board Composition and Financial Performance

Several empirical studies were conducted to apprehend the relationship between Board Composition and Financial Performance in both financial and non-financial sectors and developed as well as under developed nation the studies are as follows:

Demaki, (2018) conducted a study on Corporate Governance and Banks Profitability in Nigeria the research design is a case study of seven (7) DMBs in Nigeria. The materials and methods included a collection of secondary data from purposely selected annual report and accounts of seven (7) DMBs published in the Nigeria Stock Exchange (NSE) Fact book, which were First Bank of Nigeria (FBN), Access Bank, Diamond Bank, Guarantee Trust (GT) Bank, Sterling Bank, UBA and Zenith Bank respectively, covering a period between 2008–2014. The Corporate governance dimensions used were Board Composition, Directors Remuneration, Board Committee and Audit Composition. Bank size and age were the intervening variables. The Net Profit after Tax (NPAT) and profitability was the dependent variable and proxy of the study. The method of estimation included descriptive statistics, analysis of correlation matrix and ordinary least square techniques together with model specification. Findings from the evaluation of the slope-coefficients of independent variables (i.e. BCOMP, DRM, BCOMT and ADCOMP) revealed the existence of positive relationship between these, variables inter-alia and profitability of the sample banks. Although Directors Remuneration (DRM) and Board Committee (BCOMT) appeared to exert a negative relationship with banks profitability but which were not statistically significant at the 5% level.

Datta, (2018) conducted a study on the relationship between corporate governance mechanisms (board size, board composition, board meetings and board audit committee) and performance of the insurance company. The population of the study defined as listed insurance companies in DSE. The sample comprised ten (10) listed insurance companies. Various tests like-Descriptive analysis, multiple linear regression, Pearson correlation and co- linearity statistics were performed using IBM SPSS statistics software. Mainly secondary sources of data were used for the period of 2010 to 2016. This study found that the corporate governance had an impact on the performance of the insurance sector in Bangladesh. The independent variables of corporate governance (board size, board composition, board meetings and board audit committee) determined 38.20 percent of the performance (ROE) variance. Using Pearson correlation, the results provided evidence of a positive relationship between board sizes and ROE as well as board meetings. The result further revealed that a negative relationship between ROE and board composition. However, the study could not provide any association between the performances of the insurance (ROE) and board audit committee.

2.3.3 Board Meeting and Financial Performance

El-Maude, Bawa & Shamaki (2018) examined the effect of board size, board composition and board meetings on the financial performance of the listed consumer goods in Nigeria over the period of ten years from 2006 to 2015. The study used expo factor research design and purposive sampling technique (filter) as the research design and sampling technique. The population of the study was twenty (20) listed consumer goods companies and a sample size of ten (10) companies was studied. The data was analysed by means of descriptive statistics, Correlation and Regression analysis using STATA version 11.The descriptive result revealed that return on assets had a minimum and maximum values of -0.0400 and 0.4700 and the mean and standard deviation of 0.1199 and 0.1038, respectively. The study made use of secondary data generated from annual report and account of the sampled companies through the Nigeria Stock Exchange fact book. The findings included the following: Board size was negatively significant at the 1% with T-Value of -2.70. Board composition was positively significant at the 1% with T-Value of 1.45.The study concluded that smaller board size was more effective than larger board size; a good proportion of board composition was a good factor to enhance ROA of the listed consumer goods companies and frequent board meeting would have a negative effect on the ROA of the listed consumer goods companies because it would limit the chances for external directors to conduct a meaningful oversight over management. The listed consumer goods companies in Nigeria should discourage unnecessary board meetings to allow board directors perform other oversight functions on the management so as to enhance the ROA of the listed consumer goods companies.

However, similar study was conducted in against to this notion that board meeting should be discouraged and to allow directors to perform their oversight functions and stated that board meetings should be conducted regularly and at least quarterly, which is in line with code of corporate governance, 2016.

Aktan *et al.* (2018) studied the relationship between corporate governance and performance of the financial firms in the Kingdom of Bahrain. The study covered fifteen (15) financial firms, comprising 13 banks and 2 insurance companies listed on the Bahrain Bourse for the period 2011-2016. The study used annual data of all the listed financial firms. Data was analyzed using multi-co-linearity, pair wise correlation and multiple linear regression analysis was done for the hypotheses of this study to test the relationship The results showed that board size, ownership concentration and auditor's reputation had a positive and significant impact on firms' return on assets (ROA), whereas the percentage of independent directors and the annual number of board meetings had a negative and significant impact on firms' return on equity (ROE). CEO duality was found to not be an important determinant factor of firms' performance, as the results suggested that it showed an insignificant effect on ROA, ROE and Stock Prices Returns (SPR). Furthermore, firm's size and leverage were found to have negative and insignificant relationship with firms' performance.

Almoneef and Samontaray (2019) explored the impact of corporate governance on the Saudi banking performance for the period of 2014–2017. The dependent variable was Firm financial performance measured through return on assets, return on equity and Tobin's Q. Corporate governance dimensions were measured through board characteristics (board size, board meeting, number of committees and independence of foreign board membership) and the audit committee (size, meeting, independence) as the independent variables. Firm size and firm age were the controls variables. Panel data analysis was implemented, using both descriptive and multivariate analysis through multiple regressions to investigate the governance practices and firm performance. The empirical findings demonstrated that board size, audit committee meeting and bank size have a positive impact on

ROE, whereas board independence had a negative impact on ROE. Similarly, board size and bank size had a positive relationship with ROA and board meeting had a negative relationship with ROA. Further, board (size and independence) and bank size had a positive relationship with Tobin's Q, whereas, the number of board committees and bank age had a negative relationship with Tobin's Q. Finally, audit committee (size and independence) and foreign board membership had no impact on bank performance.

From the foregoing, we postulate the following hypothesis.

H_2: Audit committee moderates the positive relationship between corporate governance and financial performance.

2.4 Corporate Governance, Audit Committee Based Model

The Agency Theory usually focuses on the relationship between board structure or characteristics, control over management behaviour and strategic decision-making (Hafsi & Turgut 2013 as cited in Tshipa, Brummer, Wolmarans & Toit 2018). Agency theorists use the term ''corporate governance'' to ask the role of agents (managers) in fulfilling part of their contractual agreement in the cause of carrying out a business with the principal (investor). The rudimentary view held by the agency theory defines the relationship between the principals and their agents. The theory was postulated by Meckling (1976). The author cites examples of principals and agents, whom respectively include shareholders and senior managers, in other words, the principals are the owners of the company while agents are those entrusted with the management of the organizational day-to-day activities (Mulili, 2011).

Ideally, since the agents have been placed to control activities within the organization, they are supposed to act in accordance to the interests of the principals. However, the agency theory suggested that managers and directors sometimes do not do so, but in their own interests (Lekaram, 2014). The theory is very applicable in this study. This is because in terms of corporate governance, managers and directors are supposed to safeguard the image of the company. The agents (management) are supposed to implement the wishes of the owners of the company, so that their original intents are upheld. Corporate governance guidelines are supposed to ensure that the managers act in line with the wishes of the owners of the business organizations who by all standards contribute massively to the economic development of the country. The Agency Theory, therefore, insists in the establishment of very strict corporate governance rules, so that managers' self-interests will not override the way the firm is run.

The Stakeholder Theory came to divert the attention of academics from the owner/manager dichotomy and focus more on the wider supply chain. It insists that a company has many other important stakeholders and not just owners and managers. Therefore, the duty of managers is wider than simply maximizing benefits to the owners, rather to balance the interests of all the stakeholders of the company. These other stakeholders, according to Dkhili & Ansi (2012), include the following: suppliers, employees and business partners. In the banking industry, it is common for managers and owners to forget the very reason why banks exist. Business decisions should not always be about owners and managers but also other stakeholders. It is for this reason that stakeholders suggest the inclusion of a considerable number of Executive Directors within the board. This is because executive directors, being insiders, understand the business or the reason why banks were formed more than non-executive directors. This theory is important in the study because it stimulates in addressing the issues of a very large component of stakeholders and deposit owners. By proposing corporate governance ideals, the theory would ensure that other people are not oppressed by holding managers financially accountable, transparent and able to steer sustainability.

The Stewardship theory defines a steward as any person who maximizes and protects the wealth of shareholders (Momanyi, *et al.* 2018). In this instance, a steward would be a senior manager in the banking industry. The theory appears to be somewhat opposite the agency theory, which views managers as individualistic and moved by self-interest. On the contrary, the stewardship theory views managers as people who are responsible and acting in good faith all the time. In order to avoid corporate governance problems, the stewardship theory suggests that managers would be considered as more important than previously thought. As a result, they are supposed to be highly remunerated and shares offered to them (Ongore & Obonyo, 2011). Managers are able to feel ownership of the organization and hence govern as if they are the owners. At the end, agency costs will be reduced and the possibility of corporate governance scandals amongst the banking industry will significantly be reduced. That will lead to achieve targeted or stated objectives. Therefore, the Agency Theory in this context will serve as the underpinning theory to the moderating effects of the audit committee on the relationship between corporate governance and the financial performance of the banking industry.

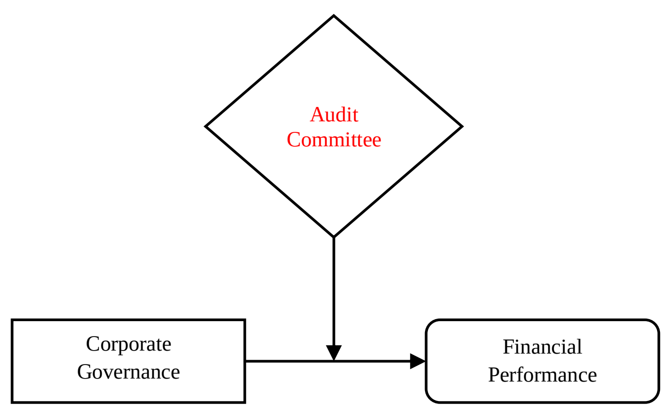

Figure 1. Corporate Governance, Audit Committee Based Model

III. CONCLUSION

This study is set out to provide a conceptual framework that link audit committee as a moderator between corporate governance and financial performance following to the extent theories and suggestion from the literature. Hypotheses were developed based on the empirical review of past studies in the accounting, management and finance literature. Therefore, it would be more interesting for the future researcher to pay more emphasis empirically on the relationships between corporate governance and financial performance as contingent on audit committee as contained in the conceptual model developed in this study.

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