

IMPACT OF AUDIT QUALITY ON FINANCIAL PERFORMANCE OF FOOD AND BEVERAGE COMPANIES IN NIGERIA

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Abstract

This paper examined the impact of audit quality on financial performance of food and beverages industry in Nigeria. The population of the study comprised of fifteen (15) listed food and beverages companies in Nigeria. The scope covered a period of five (5) years 2018 to December 2022 and all fifteen (15) listed food and beverage companies on the Nigeria exchange (NGX) constituted the sample size. Data were collected from annual report and accounts of food and beverages companies. The design adopted was ex-post facto, where data was obtained from secondary source. While correlation and Regression were used to analyzing the data, The results found that audit committee meeting has positive and significant impact on financial performance, audit independence has no significant impact on financial performance; whereas i audit committee size shows significant and partial impact on financial performance of food and beverage companies in Nigeria. It is therefore, concluded that audit committee meeting in the food and beverage companies implied that there was reasonable performance, while independence implied that no significant impact for a unit increase on ROA with the food and beverage companies in Nigeria would decrease, while the size of audit committee shows patrial level of performance. It is recommended that to maintain and protect the department's interests and to ensure that all food and beverage companies uphold standards, it is also advised that adequate measures be taken to increase the size of audit committee by sending the employees on training and retraining sessions.

Keywords: Audit quality, financial performance, Audit committee meeting, ROA, Food and beverage, Nigeria

1. Introduction

Audit quality is presumed to be enhance by audit committee used through a corporate governance process involving reviewing external auditors reports and reporting same to the board of directors, today audit committees plays a crucial role in directing the company's operations because it aids in auditing and evaluating financial and operational activities and gives managers at all levels the information they need to help achieve the company's goals. Similarly, audit is one of the

requirements of quality assurance it is a tool used for organizational for self assurance that is process are effectively used to improve other output. Quality audit is usually interned to evaluating the degree of conformance to meet a specification standard. Therefore, In order to improve the quality of financial performance, a firm must establish audit process as a strong control mechanism (Oladejo, Yinus,,Shittu, & Rutaro, 2021)

In a similar vein, Rahman, Meah, and Chaudhory (2019) claimed that the size of audit committees is positively correlated with financial performance because large audit committees are undoubtedly likely to include some members with a variety of professional backgrounds (finance, accounting),In addition to the consultative activity, which aims to increase and improve the value of operations through independent auditing and evaluation of the effectiveness of operations and control and provide management with objective analysis and suggestions, audit also help the management and rationalize its decisions by giving independent and objective assurances (Samuel 2013). (Al-Absy, Ismail Chandren, Al-Dubai, Nor, Ku, & Chandren, 202: Hazaea, Zhu, Alsharabi, Khatib, & Yueying 2020) emphasized that audit independence will help it stay pace with the modernization of the worldwide norms that guide the field of auditing.

Every economy in the world still depends on the manufacturing sector, especially the food and beverage segment, and the situation in Nigeria is no different. Therefore, food and beverage companies cannot do without auditors because food and beverage companies are significant part of the manufacturing sector and have made significant contributions and it is essential to human life and health; the food and beverage industry plays a special role in boosting economic opportunity.

The Audit Committee would profit from .because the report was produced by businesses with the sole purpose of raising the bar for corporate governance in an organization, therefore, it is in view of the foregoing that this study examines the impact of audit quality on financial performance of food and beverage companies in Nigeria.

Statement of the Problem

Today, almost no sector of the economy wouldn't profit from an impartial, independent review of internal controls relating to risk management, technology, governance, financial operations, and other functions. To this end among the common problems face by audit committee of the food and beverage companies are shortage of talent, in many companies retaining external auditors has become

difficult, relationship barriers, changing audit skill requirements, Technology tool evaluation. Administrative challenges, Political, lack of continuity of programs, noncompliance to internal control measure by the senior management team., (Teresa, 2022, Okee & Fred 2021

Similarly, Hazaea, Zhu, Alsharabi, Khatib, and Yueying 2020: Al-ahdal, Alsamhi, Tabash, and Farhan 2020)) investigated and discovered that the size of audit committees, as well as their meetings, frequently have a negligible positive impact on bank performance in Yemen, as well monitoring mechanisms affect companies' financial performance, which was Investigated how corporate governance affected the financial performance of listed companies in India and the GCC. The studies conducted by the researchers were in different filed and in different country which necessity this study to conducted on food and beverage and in Nigeria

Objectives of the Study

The main aim of this study is to investigate how audit quality affects the financial performance of Nigeria's food and beverage industry.

The specific objectives are;

- i. To examine the impact of Audit committee meeting on ROA of food and beverage companies in Nigeria.
- ii To determine the impact of independence of audit quality on ROA of food and beverage companies in Nigeria.
- iii To investigate the impact of size of audit committee on ROA of food and beverage companies in Nigeria.

Research Questions

Following research questions are raised in line with objectives of the study

- i. How does audit committee meeting impact on ROA of food and beverage companies in Nigeria?
- ii. How** does independence impact on audit committee on ROA of food and beverage companies in Nigeria?
- iii. How does size of audit committee impact on ROA of food and beverage companies in Nigeria?

Hypotheses of the Study

The following hypothesis have formulated in null.

- i. Audit committee meeting has no significant impact on audit committee on ROA of food and beverage companies in Nigeria.
- ii.** Independence and objective has no significant impact on audit committee on ROA of food and beverage companies in Nigeria.

iii. Size of audit committee has no significant impact on ROA of food and beverage companies in Nigeria.

2. Literature Review.

This section covered three aspects, which are conceptual framework, empirical review and theoretical framework.

2.1 Conceptual Review

The audit /Quality

Michael (2022) Described an auditor as a qualified professional hired by businesses to conduct unbiased assessments of operational and financial business activities, They are in charge of ensuring that organizations follow the right procedures, abide by the law, and run as efficiently as possible. The primary duty of an auditor is to identify problems and fix them before they are discovered during an external audit by an outside company or by regulatory agencies like the Securities and Exchange Commission (SEC). One of the SEC's duties is to control how businesses disclose their financial statements to guarantee that investors have access to all relevant information before making an investment. it is also known as "ensuring compliance with the specific policies and procedures put in place that led to the achievement of the tasks required of auditing." Ajila and Khaira (2017),

Hence, audit quality also refers to efforts made to verify if a product, design, process, or system complies to a standard specification or method and to assess the degree of conformance. Therefore, audit should adhere to standards, and audit guidelines as well as a way of enhancing organization value through performance indicators have all been introduced., the sampled conglomerates' financial performance would improve in the form of ROA if audit committee t quality increased. (Michael, 2022).

Audit Committee Meeting

According to Ujunwa et al. (2012), meetings should be held as frequently as necessary, but no fewer than three meetings should be held for each fiscal year, also the audit committee report should be examined annually by the board and be deemed legitimate if at least 51% of the total members attend. In the same vein, in case that the Chairman of the Audit Committee is not present, a member who has been selected in writing shall preside over the meeting.

Audit Committee Independence

The effectiveness of companies and the enhancement of their outputs are positively impacted by

the frequency and regular meetings of the members of Audit Committee as well as the size of the AC (Bansal & Sharma, 2016). Similarly, the Audit Committee benefits appropriately and significantly from having the appropriate number of members in accordance with Ujunwa et al. (2012),

Size of Audit Committee

It is expected that a company's Audit Committee size and complexity will affect how effectively its audit operates. For instance, the audit requirements for small and medium-sized organizations will differ from those for huge corporations. Additionally, there is contradicting recent evidence regarding the relationship between Audit Committee size and profitability. The size of the organization will affect the audit's breadth and quality Amato & Amato (200

Financial performance

Financial performance is a thorough assessment of a business's position across various areas, including assets, liabilities, equity, costs, revenue, and overall profitability. It is calculated using a variety of business-related algorithms that enable consumers to determine precise information about a company's prospective effectiveness.

Internal users review financial performance to assess the health and standing of their individual companies, among other benchmarks. In order to identify possible investment prospects and whether a company is worthwhile to them, financial performance is analyzed for external users.

A financial statement analysis is necessary before calculations on some financial indicators that determine overall performance can be completed. While ROA refers to as how good financial goals are being achieved which is a crucial component of managing bad financial. It is the process of calculating the monetary value of the outcomes of a firm's policies and operations. It is used to assess a company's overall financial health over a specified period of time and may also be compared to other firms in the same industry or aggregated across industries or sectors. (Eshna 2022)

2.2 Empirical Review

Hazaea, Zhu, Alsharabi, Khatib, and Yueying (2020) examined how auditing standards affected the financial performance of Yemeni commercial banks. The results show that audit standards compliance, auditor independence, and quality governance all have a significant impact on banks' financial performance, while the size and frequency of meetings of audit committees have a negligible positive impact on banks' performance, which necessity the current study to determine why, an also in different field and country while this study is in Nigeria. Al-ahdal, Alsamhi, Tabash, and Farhan (2020) examined the financial performance of listed firms in India and the GCC was to determine how corporate governance affects that performance. but this relationship is still unreliable which necessity this study, an is taking in Nigeria

Similarly, Enekwe, Chike and Sergius (2020) examined the impact of audit quality on the financial performance with public listing of Companies in Nigeria, The results indicated that independence has positive and signified effect on financial performance of listed manufacturing firms. The study was conducted in Nigeria but not on food and beverages which necessity the current study.

Rahman et al. (2019) examined the extent of impact of audit characteristics on company financial performance, the result indicated that the size of audit committees is positively correlated with financial performance. The study examined the extent of impact of audit characteristics on company financial performance while this study examines the audit committee quality on the financial performance of food and beverage companies.

Yin, Gao, Li, and Lv (2012) examined factors affecting the frequency of audit committee meetings: evidence from Chinese listed corporations," Using insights from a 912-year-old corporation, The results showed that the number of audit committee meetings is smaller in publicly owned enterprises than in privately owned firms, and that the frequency of audit committee meetings is inversely correlated with the percentage of shares owned by a majority shareholder. The proportion of independent directors on a board of directors was discovered to be inversely associated with the number of audit committee meetings in China, although the audit committee and firm size were both found to be positively associated with frequency. The study is in different field and in Chinese, whereas this study is in Nigeria.

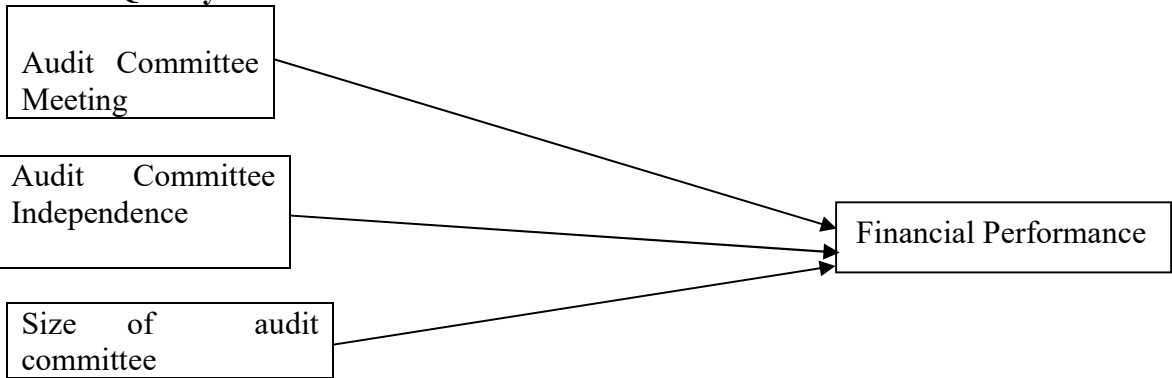
Goddard, McMillan, and Wilson (2006) examined evidence on Gibrat's law and the persistence of profits over the long run. The result reveals that a negative size-profitability relationship for manufacturing and service sector firms in Belgium, France, Italy, and the United Kingdom from 1993 to 2001. This was not done in Nigeria and in different field which necessity this study.

Conceptual Framework

The dependent variable is financial performance and independent variables are audit committee meeting, independence and the size of audit committee while the control variable is firm size

Independent Variable **Variable**

Audit Quality



2.3 Theoretical Framework

Agency Theory

Agency theory serves as the underpinning in this study, Meckling and Jensen (1976) states that agency theory is described as the interaction between principals and agents. The researcher went on to say that by defining the rights of agents and principals in contracts that are properly constructed, agency issues can be overcome. According to this agency theory, the reporting entity's resources are given to managers who act as agents, and it operates to serve the interests of its owners, who are the principle Therefore, this theory relates to this study in the sense that the institutional scope of this study are food and beverage companies, which are private enterprises owned by principals and control by agents on behalf of their owners.

3. Methodology

This study adopting ex-post facto research design using secondary source, the population of the study comprised of fifteen (15) listed food and beverage companies in Nigeria. for the period of 2018 to December 2022 listed on the Nigeria exchange (NGX) which also forms the sample size. The population of the study are known as fast moving consumer goods (FMCG), this is because their products are much sought after and sold almost immediately as they are produced. Data were collected from annual report and accounts of food and beverage companies. While correlation and Regression were used to analyses the data.

Variables and Measurement

Variable	C	Measurement of variable
Dependent Variable		
Return on Assets	ROA	Net/ Total Asset
Independent Variables		
Audit committee Meetings	ACM	Number of meetings held by Audit committee during the year
Audit committee Independence directors in	ACI	Proportion of Independent Audit committee
Size of the audit committee (SAC) measure of audit size		Total number of members of Audit committee

Source: Completion by the researcher

Model Specification

$$ROA_{it} = \beta_0 + \beta_1 I_{it} + \beta_2 ACM_{it} + \beta_3 ACI_{it} + \beta_4 SAC_{it} + \mu_{it} \quad (1)$$

Where: β_0 = Constant, ACM = Audit Committee Meetings, ACI = Audit committee Independence, (SAC) Size of Audit committee, μ : Error Term.

4. Results and Discussion

Table 1. Descriptive of Variables

Variables	Mean	Sd. Dev.	Min.	Max.
ROA	0.07616	.2063	-1.25	.46
ACM	.02000	.04090	0	0.16
ACI	.5723	.23.620	0	.90

SAC 9.2886 2.8212 0 17

Source: STATA Version 13 Computed by the researcher

The study's analyses are displayed in Table 1. According to the outcome, ROA has a mean value of 0.0762 and a standard deviation of. 2063. With minimum and maximum ROA values of -1.25 and -.46, respectively, it can be concluded that performance during the period was subpar because it recorded a minimal value and a reasonably high standard deviation. A meeting of the audit committee (ACM) showed a mean of.0200 and a standard deviation of.0410. It ranges from 0 to 0.16 as its minimum and maximum. The results reveal that the audit committee meeting performed better than expected, owing to the low standard deviation. ACI =Audit committee Independenc have an average of 57.23% of the proportion of independent directors to total number of members with a standard deviation of 23.62%, implying that 57.23% of members of food and beverage corporations listed in Nigeria were independent Directors. The minimum and maximum percentages of outside directors are 0 and 90%, respectively. This demonstrates that not all of the sample organizations fully adhered to the corporate governance code guideline, which states that firms should keep at least 10% independent directors.

As shown in Table 1, the average size of audit committee (SAC) is 9.30, with a standard deviation of 2.8212. audit committee varies greatly across the sample firms, with a minimum of 0 and a maximum of 17. Table 4.2 is included for analysis purposes in order to establish the nature of the connection that exists between the dependent and independent variables.

Table .2 Correlation Matrix of Variables

Correlate	ROA	ACM	ACI	SAC
ROA	1.0000			
ACM	1.2000	1.0000		
ACI	0.0598	-0.0017	1.0000	
SAC	0.4212	0.3803	0.0846	1.0000

Source: STATA Version 13 Computed by the researcher

Table 2 above shows the correlations between the variables, the correlation coefficient between Return on assets is found to be 0.32 which shows a positive relationship though less strong. On the contrary the result reveal that ROA has very low relationship with ACM given as 0.60 which indicates that the two variables has only 6% relationship which is empirically insignificant. Based on this audit committee meeting does not constitute any threat to the survival of the firm. The result shows that both independence and size of audit committee have relatively higher correlation with ROA given by approximately 42% and 47%respectively.

This indicates that independence and size of audit committee are the important variables in explaining the behavior of the ROA.

Table 3 OLS Regression

ROA	Coef.	Std. Err.	T	P> t	95% Conf.	Interval]
ACM	0.5676	.4878802	3.5311	0.0010	-.8669924	1.021437
ACI	-0.2392	.1018125	-1.460	0.1520	-.0451138	.3564507
SAC	0.3459	.00743	2.1100	0.0420	.0076102	.041241
CONS	-3535443	.1301732	-2.71	0.008	-.6115716	-.0933246
	Number of obs			100		
	F (4, 83)			6.56		
	Prob > F			0.005		
	R-squared			0.2720		
	Adj R-squared			0.3365		

Source: STATA Version 13 Computed by the researcher

Table 3 shows the summary multiple regression results between the dependent variable ROA and independent variables, audit committee meeting, independence and size of audit committee. The adjusted R² of 0.3365 indicates that 34 percent of the variation in ROA can be explained by variability in audit committee meeting, independence & objective and size of audit committee. However, other factors account for the remaining 66 percent. It indicated that the model was fit and the explanatory variable were properly selected, combined and used as significant value of the reporting quality is accounted for by the explanatory variables. The F-Statistics of 6.57 and corresponding significant (probability) value of 0.005 shows that the independent variable jointly explains or influences the dependent variables.

The coefficient of the individual variables shows that ACM has a coefficient value of (0.5676) and t-value of 3.53 while P-value of 0.0010 which is significant at 1%. From the coefficient value (0.5676), it can deduce that audit committee meeting and ROA of food and beverage companies in Nigeria are positively related which implies that for every 1unit increase in the audit committee meeting of food and beverage companies in Nigeria audit committee meeting of food and beverage companies has ROA with audit committee will increase by 57units. This implies that the larger the audit committee meeting of food and beverage companies, the higher their performance will be. This provides enough statistical evidence of rejecting null hypothesis I of the study which states that audit committee meeting has no significant impact on ROA of food and beverage companies in Nigeria. The present study therefore is concurred with Rahman et al 2019; and contrary with the findings in Yin et al (2012)

Table 3. revealed that (I) has a coefficient value of – 0.2392 and t- value of -1.4600 while P- value of 0.1520 which is insignificant. The negative value of the coefficient (-0.2392) signifies that IO on ROA of food and beverage companies are negatively related which implies that for -.23 units increase in independence. ROA of food and beverage companies in Nigeria will decrease by .23 units. This provides accepting Null hypothesis ii of the study which states that independence has no significant impact on ROA of food and beverage companies in Nigeria. These findings contrary with Enekwe, et al 2020, Hazaen et al 2020, Alzeban and Gwilliam 2014), and concurred to the findings of Yin et al (2012)

Table 3 shows that (SIA) has a coefficient value of 0.3459 and t- value of 2.1100 while P value of 0.0420 which is significant at 5% Level of significance. The coefficient value 0.3459 signifies that size of audit committee on ROA of food and beverage companies in Nigeria. are related meaning that whenever the size of audit committee . Food and beverage companies increase by .35 units, ROA of food and beverage companies will also increase by 2.11 units. This provides evidence of rejecting the null hypothesis iii of the study. The finding is consistent with Rahman et al (2019; Yin et al 2012) and contrary to Hazaen et al 2020). The firm size which is the control variable shows no significant association with ROA which has a coefficient value of 0.05078 and t- value of 0.74 while P value of -.0074132 which concurred with Goddard et al (2006) and contrary to of Yin et al (2012)

Table 4 Linear Regression

ROA	Coef.	Std. Err.	T	P> t	95% Conf. Interval]
ACM	.07868	.3402056	0.24	0.734	-0.5976563 .7524232
ACI	-15517	.0936017	1.66	0.098	-0.0288726 .3422464
SAC	.0243873	.0134002	1.82	0.071	-0.021573 .0510365
CONS	-.3535443	.1508982	-2.33	0.021	-0.6425736 -.0533136
Number of obs					100
F (4, 83)					6.56
Prob > F					0.0628
R-squared					0.2720
Root MSE					.18229

Source: STATA Version 13 Computed by the researcher

The results shown in table 4 above revealed that independence is negative and statistically significant. Also, all the diagnostics test of the model reveals similar outcome with F-statistics of 6.56 which indicates that the model is still adequate (though now at 10% level). Similarly, the joint influences of all independent

variables on the dependent variables remains as 27%. This shows that not all the companies comply with the corporate governance code guideline.

Table 5. shows the summary of hypotheses and the findings.

Summary of Hypotheses

S/No	Hypothesis	Expected Sign	Decision
1	Audit committee meetings of Food and Beverage Companies in Nigeria does not significantly impact on ROA	Positively Significant	Not Supported
2	Audit committee independence of Food and Beverage Companies in Nigeria does not significantly impact on ROA	Negatively Significant	Supported
3	Audit committee size of Food and Beverage Companies in Nigeria does not significantly impact on ROA	Positively insignificant	Not Supported

Source: Generated by the Author from the study

Summary of Findings

The findings are stated as follow below: As explained in Tables 3 earlier, the combined effect at 34 percent of the variation in ROA can be explained by variability indicated a strong relationship between the variables. However, other factors account for the remaining 66 percent. It indicated that the model was fit and the explanatory variable were properly selected, combined and used as significant value of the reporting quality is accounted for by the explanatory variables. Therefore, the findings for the specific objectives are summarized as follows:

1. The study reveals that audit committee meeting has significant impact at 1%. This shows positive performance by food and beverage companies which concurred with Rahman et al (2019);
2. The findings reveal that independence has insignificant impact on ROA. This shows that independence has no serious effect on ROA. This is contrary with Hazaen et al (2020, Alzeban and Gwilliam (2014), and concurred to the findings of Yin et al (2012)
3. The study shows that Size of audit committee is significant at 5% Level of performance. This shows that there is significant at 5% on the of performance with

food and beverage companies in Nigeria which concurred with the finding of Rahman et al (2019; Yin et al 2012) and contrary to Hazaen et al (2020).

5. Conclusion and recommendations

Based on the findings of the study, the following conclusions were drawn.

Audit committee meetings shows positive performance by food and beverage companies This implies that the larger audit committee meeting in food and beverage companies the higher their performance will be.

Audit committee independence has no significant impact on ROA with food and beverage companies in Nigeria This implies that for a unit increase in Independence on ROA with food and beverage companies in Nigeria will decrease.

Size of audit committee shows partial performance by food and beverage companies. This implies that there is level of performance.

The following recommendations are outlined from the findings and conclusion of the study.

1. It is recommended that all the management of audit committee meeting should keep

Frequency of their meetings periodically, and regularly, to maintain the performance and to protect the interest of the department in order to ensure that all food and beverage companies keep to standard.

It is recommended that independence which are related to auditors to be maintain which contribute to improving internal auditing efficiency and work can be carried out effectively.

It is recommended that adequate measure should be put in place to expended the size of audit committee.

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Appendix 1

Population and Sample of the study

S/No	Population	Sample
1	BUA	BUA
2	Cadburg	Cadburg
3	Champion Breweries Nigeria	Champion Breweries Nigeria
4	Dangote Sugar	Dangote Sugar
5	Flour Mills Nigeria	Flour Mills Nigeria
6	Gunnies Nigeria	Gunnies Nigeria
7	Honeywell Flour Mills	Honeywell Flour Mills
8	International Breweries	International Breweries
9	Nasion	Nasion
10	Nestle Nigeria	Nestle Nigeria
11	Northern Nigeria Flour Mills	Northern Nigeria Flour Mills
12	PZ Cussons Nigeria	PZ Cussons Nigeria
13	Unilever Nigeria	Unilever Nigeria
14	Vita foam	Vita foam
15	Nigeria Breweries	Nigeria Breweries

Source: Nigeria Stock Exchange December 2021:

Appendix 2

Descriptive Statistic of Variables

Variables	Mean	Std. Dev.	Min	Max
ROA	0.07616	.2063	-1.25	.46
ACM	.02000	.04090	0	0.16
ACI	.5723	.23.620	0	.90
SAC	9.2886	2.8212	0	17

Correlation Matrix of Variables

Correlate	ROA	ACM	ACI	SAC
ROA	1.0000			
ACM	0.0598	1.0000		
ACI	0.4212	0.3803	1.0000	
SAC	0.4703	0.4346	0.1141	1.0000

3 OLS Regression

ROA	Coef.	Std. Err.	T	P> t	95% Conf.	Interval]
ACM	0.5676	.4878802	3.5311	0.0010	-.8669924	1.021437
ACI	-0.2392	.1018125	-1.460	0.1520	-.0451138	.3564507
SAC	0.3459	.00743	2.1100	0.0420	.0076102	.041241
CONS	-3535443	.1301732	-2.71	0.008	-.6115716	-.0933246

Number of obs	100
F (4, 83)	6.56
Prob > F	0.005
R-squared	0.2720
Adj R-squared	0.3365

Linear Regression

ROA	Coef.	Std. Err.	T	P> t	95% Conf.	Interval]
ACM	.07868	.3402056	0.24	0.734	-0.5976563	.7524232
ACI	-15517	.0936017	1.66	0.098	-0.0288726	.3422464
SAC	.0243873	.0134002	1.82	0.071	-0.021573	.0510365
CONS	-.3535443	.1508982	-2.33	0.021	-0.6425736	-.0533136

Number of obs	75
F (4, 83)	6.56
Prob > F	0.0628
R-squared	0.2720
Root MSE	.18229

Source: STATA Version 13 Computed by the researcher