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RESEARCH ARTICLE

AUDIT COMMITTEE CHARACTERISTICS AND FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN CAMEROON

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Abstract

This study examines audit committee characteristics and financial performance of manufacturing companies in Cameroon. The study adopted ex-post facto research design. The population consisted of the 133 manufacturing companies in Cameroon. A sample of 20 companies was used and data collected from secondary sources within the period 2013 to 2022. The data were analysed with the aid of a panel regression analysis. The results showed that audit committee size, expertise, and independence all positively affect financial performance proxy by return on assets, net profit margin and Tobin's Q. the study recommends that manufacturing companies should make an effort to add an audit committee that is more educationally diverse and inclusive. This opens up the possibility of doing more risk assessments because audit committee members who are also knowledgeable in accounting have established precedents for better risk assessment and asset management for improved operational performance. Manufacturing firms should strictly abide by the corporate governance guidelines promoted regarding the number of audit committee members, as it has been demonstrated that the more members, the more effective resources in terms of independence and expertise to facilitate an effective audit function disposition for efficient business decisions that will favorably affect financial performance. In maintaining the required number of audit members, manufacturing businesses should always include an equal number of shareholders' and management's representatives. This will lead to the formation of an unbiased audit committee that is fair and free from outside interference.

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Introduction:-

Background to the Study

The financial performance of any organization is crucial to its survival and acts as a barometer of its effectiveness; nevertheless, there has been ample evidence of financial crises and accounting and auditing scandals on a worldwide level over the years. Financial results have an effect on the company's future. High financial performance is an indicator of management's effectiveness and efficiency in using corporate resources, which benefits the economy of the organization (Ashari & Krismiaji, 2019). The performance and competitiveness of the company can be used to determine how effective the audit committee is, especially in the rapidly evolving business environment that the

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company cannot control (Herdjiono & Sari, 2017). It is nevertheless important to look at the audit committee's past involvement in policing the company's financial performance.

In corporate governance, it is a given that the audit committee is responsible for ensuring that auditors are impartial of management. The audit committee can therefore be used as a mechanism to address agency issues (Jensen & Meckling, 1976). According to Lloyd (1991), a corporation's operational efficiency is significantly impacted by the audit committee's makeup and attributes. An essential component of corporate governance, the audit committee facilitates the monitoring of management practices (Afify, 2009, cited in Ashari & Krismiaji, 2019). The audit committee aids in lowering risk and raising the caliber of financial reporting, according to Contessotto & Moroney (2014), referenced in Ashari & Krismiaji (2019). In order to safeguard the interests of the owner, the audit committee is crucial, according to Kallamu & Saat (2015), referenced in Ashari & Krismiaji (2019). Particularly with regard to industrial firms in emerging nations like Cameroon, research on the composition and financial performance of the audit committee is currently lacking.

Statement of the Problem

The global public's growing worry about the audit committee is largely a result of recent high-profile business failures, particularly those of Enron and World Com. The audit committee for Enron contains six members, four of which are experts: an emeritus professor of accounting, an accounting professional, and two senior executives from other industries, according to critics. Despite this, they were unable to spot Enron's accounting fraud and failed to advise on or evaluate the firms before the avoidable failure was revealed to the various stakeholders. Misleading expert (Audit) opinion on the business operations of organizations is the main issue facing the corporate sector. Due to poor corporate governance, which was caused by the audit committee's inability to recognize such deceptive concerns, many businesses have failed. As a result of the growing worry surrounding this, audit committee study has been conducted all over the world, including in Cameroon.

Objectives of the Study:-

The primary objective of this study is to examine the audit committee's characteristics and the financial performance of manufacturing businesses in Cameroon. The following are some of its specific objectives:

1. Examine the effect of audit committee characteristics on return on asset.
2. Evaluate the effect of audit committee characteristics on net profit margin.
3. Determine the effect of audit committee characteristics on Tobins Q.

Research Questions

1. To what extent does audit committee characteristics affects return on asset.
2. To what extent does audit committee characteristics affects net profit margin.
3. To what extent does audit committee characteristics affects Tobins Q.

Research Hypotheses

1. Audit committee characteristics have a positive significant effect on return on asset.
2. Audit committee characteristics have a positive significant effect on net profit margin.
3. Audit committee characteristics have a positive significant effect on Tobins Q.

Literature Review:-

Conceptual Review

Audit Committee Characteristics

There are at least two approaches to look at an audit committee's characteristics: specifically (Rahman, Meah, and Chaudhory, 2019) and generally (Enofe, Edemenya, and Osunbor, 2015). From a narrow perspective, an audit committee is only considered to be concerned in the frameworks that provide a corporate entity or company its fundamental orientation and direction. The restricted approach views audit committee features as a corporate governance tool because of concerns about shareholder protection, management control, and the well-known principal-agency problems in economic theory (Eginiwin & Dike, 2014; Tapang, Kankpang, Inah, Bessong, & Uklala, 2020; Efiong, Tapang, Mbu-Ogar, Effiong, Obo, Uklala,... & Otosi, 2022).

Audit Committee Expertise

The Blue Ribbon (1998) was concerned about the knowledge of the members of the finance and audit committees

since it would impede their effectiveness. The panel suggested that audit committee members have extensive financial experience. The monitoring process and potential financial fraud may be impacted by this. Financial literacy appears to function better in diversified operations and in businesses where audit committees are legally required, per a study by Fodio, Foluke, and Victor (2014). The article goes on to say that financial literacy is essentially the same as having a financial background rather than being financially savvy. According to Ezeokoli at el. (2019), investors appear to favor the audit committee accounting knowledge when choosing investments, which has an impact.

Audit Committee Size

Sharma and Kuang (2014) assert that a larger audit committee is more likely to include people with a range of knowledge and expertise, which will probably improve monitoring. But Makhlouf, Al-Sufy, and Almubaideen (2018) found a link between board size, the monitoring procedure, and better performance. Rahman, Meah, and Chaudhory in 2019 added to this conclusion. The audit committee's size affects how frequently it meets, according to Raghunandan and Rama's (2007) argument. The claim is that by conducting meetings more regularly, monitoring will be improved and corporate performance would increase. However, Bouaziz (2012) asserted that scale is unlikely to have any impact on how well a corporation performs.

Audit Committee Independence

Audit committee independence must be the cornerstone of a successful audit committee, a crucial step in the corporate reporting process, and a prerequisite for audited financial statements and a company's performance to benefit (Kallamu & Saat, 2015). Non-executive directors ought to sit on the audit committee because of their unbiased perspective on important issues, according to Modum et al. (2013). In order to ensure that executive directors make decisions with the interests of the principals (shareholders) in mind, outside directors are regarded to be necessary (Kantudu & Samaila, 2015). Additionally, a strong audit committee that respects ethical accounting procedures and is unbiased helps ensure an organization's efficacy, which in turn encourages profitability (Kalbers & Fogarty, 1993).

Financial Performance Financial performance, as indicated in Kurawa and Shuaibu (2022) and Nuhu et al. (2017), is more broadly defined as the degree to which financial goals are being or have been attained. The process of assessing a company's operations and corporate policies in terms of their financial impact was described as financial performance in this study. It is used to evaluate a company's long-term financial health and can also be used to contrast similar companies in the same industry or to compare entire markets (Egbea, Oyong, & Kechi, 2020; Kankpang, Ewa, Oti, Inyang, & Okon, 2020; Tapang, & Ibiam, 2019; Tapang, Uklala, Mbu-Ogar, Obo, Efiong, Usoro, ... & Anyingang, 2022; Tapang, Effiong, Efiong, Oti, Uklala, & Bessong, 2020).

Theoretical Review

Agency Theory

Accord to Jensen and Meckling (1976), the agency theory is a theory that forecasts and explains the actions of agents and principals. The separation of ownership and control in modern businesses creates a conflict of interest between managers and principals (Bassey, Tapang, & Bessong, 2012; Oti, Effiong, & Tapang, 2012; Tapang, & Bassey, 2017; Effiok, Tapang, & Eton, 2012). As a result, the business needs to set up an audit committee and employ control measures to, among other things, reduce agency costs and information asymmetry (Kalbers & Fogarty, 1998). According to Pincus and Wong (1989), the audit committee is primarily used when the agency's costs are significant to enhance the caliber of information that is communicated from the agency.

Empirical Review

By examining the agency theory and resource dependence theory, Dakhlallh, Rashid, Abdullah, and Shehab (2020) provided empirical evidence of the impact of the audit committee's size, independence, financial expertise, and stock ownership on firm performance as measured by Tobin's Q among Jordanian companies. The study's sample included 180 firms from the financial, industrial, and service companies listed during the study's period of investigation. Despite, being highly inversely correlated the audit committee's stock holdings and company performance. These findings offer fragments of information that Jordan's regulators, investors, and executives can take into consideration when creating corporate policies. As a result, this study provides empirical data to help executives, stakeholders, and others make decisions.

Ashari and Krismiaji (2019) looked into how the independence (ACIN), size (ACSIZE), competence (ACCO), and number of meetings (ACMT) of the audit committees affected the financial performance (PERF) of manufacturing companies listed on the Indonesian Stock Exchange for the years 2016 and 2017. The return on assets (ROA) is used to measure PERF, the percentage of members from outside the company is used to measure ACIN, the proportion of members with accounting and finance backgrounds is used to measure ACCO, and the number of audit committee meetings in 2016 and 2017 is used to measure ACMT. In order to conduct this study, a sample of 466 publicly traded company observations from the Indonesian Stock Exchange for the fiscal years ending on December 31, 2016, and 2017, which are retrieved for 660 listed businesses, were used. The research reveals that every attribute of the audit committee has a favorable impact on the operation of the business. The three control variables in the study are corporate size (SIZE), financial leverage (LEV), and auditor quality (BIG4). The company's financial success is influenced favorably by BIG4 and LEV, whereas SIZE has a detrimental effect on the company's financial performance.

Temples (2019) looked into the connections between the make-up of the audit committee, the traits of the board of directors, and the caliber of financial reports produced by commercial banks in Nigeria. Using the approach of contents analyses, the study's data were gathered from the annual reports of fifteen (15) commercial banks throughout a ten-year period, from 2009 to 2018. The data for the study were analyzed using the Jones quality of accruals model and regression using ordinary least squares. The study's conclusions demonstrated that the quality of financial reporting is positively impacted by the audit committee's increased independence.

Olayikan (2019) focused on eight publicly traded Nigerian banks while examining the impact of audit committee effectiveness on the development of firms' performance in Nigeria. While profit before tax served as the dependent variable, he examined the size of the audit committee, the frequency of audit committee meetings, and the financial literacy of audit committee members. His findings using Ordinary Least Square (OLS) regression showed that audit committee size, frequency of meetings, and audit committee member financial literacy have no meaningful impact on firms' performance in Nigeria.

Hasan, Molla, and Khan (2019) looked into how corporate governance (CG) elements, such as board characteristics (size, independence, and expertise) and audit committee characteristics (size, independence, and expertise), relate to profitability as determined by return on assets (ROA) and return on equity (ROE). The report provides information on all Dhaka Stock Exchange (DSE) listed companies in Bangladesh that are involved in the pharmaceutical and chemical industries. The study's empirical findings show a substantial positive association between board size, board expertise, and audit committee size and both the return on assets (ROA) and return on equity (ROE) measures of profitability. Additionally, while there is little correlation between audit committee skill and ROE, it has a strong negative correlation with ROA. The other factors do not, however, significantly affect profitability. Their research will add to the body of knowledge on company profitability in a developing country like Bangladesh.

Research Methods:-

The research design used in this study is ex-post facto. This research design was chosen for this study due to its advantages as the best method to utilize when it is difficult to control all or any of the variables. Between 2013 and 2022, the research work used secondary sources of data. There were 133 manufacturing businesses in Cameroon (see https://www.dnb.com/business-directory/company-information.manufacturing.cm.html). Twenty manufacturing enterprises that generated at least $20 million in sales annually made up the sample.

A panel multiple regression models are stated as follows:

$$ROA_{it} = \beta_o + \beta_1 AI_{it} + \beta_2 AE_{it} + \beta_3 AS_{it} + e_{it} \ldots\ldots\ldots\ldots\ldots\ldots 1$$
$$NPM_{it} = \beta_o + \beta_1 AI_{it} + \beta_2 AE_{it} + \beta_3 AS_{it} + e_{it} \ldots\ldots\ldots\ldots\ldots\ldots 2$$
$$TQ_{it} = \beta_o + \beta_1 AI_{it} + \beta_2 AE_{it} + \beta_3 AS_{it} + e_{it} \ldots\ldots\ldots\ldots\ldots\ldots 3$$

Where:

ROA = Return on assets (Net profit to total assets)
NPM = Net profit margin (Net profit to total revenue)
TQ = Tobin Q (Market value of equity to total assets)
AI = Audit independence (Shareholder representatives to the total of audit committee size)
AE = Audit expertise (Qualified members with accounting and finance experience to audit committee

size).
AS = Number of members in the audit committee
i = Cross-section (Number of sample manufacturing firm)
t = Time frame (Study time period)

Discussion Of Findings:-

Findings from the test of hypothesis one reveal that audit committee independence, expertise and size have significant effect on return on assets. This finding corroborates that of Ashari and Krismiaji (2019) who investigated the effect of audit committee characteristics on financial performance of manufacturing companies listed on the Indonesian Stock Exchange. Hypothesis two results revealed that audit committee independence, expertise and size have significant effect on net profit margin. This contradicts the findings of other scholars such as Olayikan (2019). The result from the test of hypothesis three revealed that audit committee independence, expertise and size have significant effect on Tobin Q. This finding agrees with the work of Dakhlallh, Rashid, Abdullah, and Shehab (2020) study on the impact of the audit committee's size, independence, financial expertise, and stock ownership on firm performance as measured by Tobin's Q among Jordanian companies. Their findings revealed a significant positive relationship between components of audit committee (composition) and performance.

Conclusion:-

The financial performance and audit committee characteristics of Cameroonian industrial enterprises are examined in this study. The results showed that audit committee size, expertise, and independence all positively affect financial performance. As a result of the empirical study evidence supporting the three hypotheses, they are accepted. These results corroborate earlier investigations and studies from other nations that discovered that the existence of audit committees and specific audit committee components can successfully assist financial performance.

Recommendations:-

1. Manufacturing companies should make an effort to add an audit committee that is more educationally diverse and inclusive. This opens up the possibility of doing more risk assessments because audit committee members who are also knowledgeable in accounting have established precedents for better risk assessment and asset management for improved operational performance.
2. Manufacturing firms should strictly abide by the corporate governance guidelines promoted regarding the number of audit committee members, as it has been demonstrated that the more members, the more effective resources in terms of independence and expertise to facilitate an effective audit function disposition for efficient business decisions that will favorably affect financial performance.
3. While maintaining the required number of audit members, manufacturing businesses should always include an equal number of shareholders' and management's representatives. This will lead to the formation of an unbiased audit committee that is fair and free from outside interference.

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