

## The Effect of Audit and Risk Management Committee on Financial Performance of Healthcare Firms in Nigeria

**Agbo, Innocent Sunny**  
Department of Accounting  
Igbinedion University, Okada Edo State, Nigeria  
Mail: [blessedsamsun@gmail.com](mailto:blessedsamsun@gmail.com)

**Gina Oghogho Olufemi**  
Department of Accounting  
Wellspring University, Benin city, Nigeria  
Mail: [atugina18@gmail.com](mailto:atugina18@gmail.com)

**Itefue, E. Evelyn**  
Department of Accounting  
Postgraduate students, Igbinedion University, Okada Edo State, Nigeria

### Abstract

This study examined the effect of audit and risk management committee on financial performance of healthcare firms in Nigeria. *Ex Post Facto* research design was employed. Data were collected from the sampled of healthcare companies in Nigerian Exchange Group. The hypotheses were tested using regression analysis via E-View 9.0. Thus the study revealed that audit committee has a positive effect on return on equity, and this effect was not statistically significant at 5% level of significance, while risk management committee was significantly affect return on equity of healthcare companies in Nigeria. The study recommended that it is essential that the audit committee is paid attention and more seriously in each corporate organization.

**Keywords:** Audit committee, Risk management committee and Financial performance

### INTRODUCTION

Corporate governance is concerned with how all parties (stakeholders) involved in the firm's success try to guarantee that managers and other insiders are always taking proper actions or implementing procedures that protect the stakeholders' interests. Corporate governance tools assure shareholders of adequate returns on investments. (Al-Haddad, Alzurqan, & Al\_Sufy, 2011) agreed that when these tools did not function properly, outside investors would neither invest in company equity securities nor lend to the company. And this may cause the company not to have access to long term debts and as a result, overall economic performance would suffer as many attractive business prospects would be lost, and financial difficulties at particular companies would swiftly spread to other companies, employees, and consumers. Corporate

*Received:* 2 March 2023

*Revised:* 23 March 2023

*Final Accepted for publication:* 4 April 2023

Copyright © authors 2023

governance was created to defend the interests of shareholders but has increasingly gained importance for other stakeholders and society (Mohammad, Aly, Dixon, & Startling, 2014).

Audit committee refers to appointed members who take active roles in supervising accounting and financial disclosure practices of companies (Kibiya, Ahmad & Amran 2016). The main character of audit committee is to screen the integrity of financial statements delivered by management (Hashim, Ahmed, & Heuy, 2019; Azubike & Nweze, 2019; Eyenubo, Mohammed & Ali 2017). As of late, the significant job has been extended past the annual financial statement to incorporate the quarterly financial reports (Hashim, Ahmed & Heuy, 2019). Nowadays, an audit committee is being looked upon as a distinct culture for internal control and has received a wide-publicity across the globe (Bedard & Gendron, 2010). Government authorities, regulators and international bodies all have indicated that they view audit committee as a potential power tool that can enhance the reliability and transparency of financial information about financial positions' financial performance, financial flexibility, and information environment of companies (Kallamu & Saat, 2015).

The measures of financial performance are: return on asset, return on equity, earnings per share and profitability. Return on assets (ROA) indicates the profitability on the asset of the firm after all expenses and taxes (Van Horne 2005). It is a common measure of managerial performance (Ross, westerfield, Jaffe, 2005). It shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments (Ahmed, 2009). Return on equity (ROE) indicates the profitability to shareholders of the firm after all expenses and taxes (Van Hornes 2005).

Furthermore, for decades, Nigeria's health sector has suffered from acute underfunding, whilst the country's leadership had often travelled to the United State of America, United Kingdom, Dubai and so on..., to get the medical care they have callously denied their fellow citizens. According to latest World Health Organization survey, Nigeria's healthcare system is ranked as the fourth worst in the world. This is no surprise as there is an increase in early death rate in Nigeria, a country where there are little or no ambulance and paramedics services and no simple toll-free number, like 911 to call in case of an health emergency (Nwachukwu, 2021). All these issues can be attributed to lack of investment in the health sector by government and private investors. While there are various researches on Corporate Governance committee as seen above

and in the conceptual review, there are no research to the best knowledge of the researcher on Corporate Governance committee and financial performance in the Health sector. Thus not only will this research fill a gap in literature, it is hoped that it will encourage investment in the health sector in Nigeria by existing and potential investors. Specifically, the study ascertain:

1. The effect of audit committee and return on equity of healthcare companies in Nigeria.
2. The effect of risk committee on return on equity of healthcare companies in Nigeria.

## **CONCEPTUAL REVIEW**

### **Corporate Governance Committee**

The corporate governance is responsible will review the size of the board and recommend to the board a size that facilitates effective decision making. In addition, taking into consideration the recommended size of the board, the corporate governance committee will recommend the numbers of the board positions to be filled by independent directors, bearing in mind the board's belief that, expect during periods of temporary vacancies, independent directors should comprise at least a majority of the members of the board (Thomson Reuters 2022)

The corporate governance committee will evaluate whether the necessary and appropriate committees exist to support the work of the board and will make recommendations to the board for the allocation of responsibilities among committees, the creation of additional committees or subcommittees, or the elimination of committees as it determines appropriate (Thomson Reuters 2022).

### **Audit committee**

The main character of audit committee is to screen the integrity of financial statements delivered by management (Hashim, Ahmed, & Huey, 2019; Azubike, & Nweze, 2019; Alabdullah, Ahmed, & Nor, 2018; Eyenubo, Mohammed & Ali, 2017). As of late, this significant job has been extended past the annual financial statements to incorporate the quarterly financial reports (Hashim, Ahmed & Huey, 2019). Audit committees are getting more involved within the oversight of financial reporting matters as contrasted with financial statements (Fiolleau, Hoang, & Pomeroy, 2019). As reported by Owolabi and Dada (2011), considering the quantum of firm failure and collapses, it is essential that the audit committee is paid attention and more seriously in each corporate organization. The audit committee considers an integral part of control

mechanisms feature because it leads to enhance good control mechanisms and enhance the integrity of financial reporting Eyenubo, S.A., Mohammad & Ali (2017). Sarbanes-Oxley Act emphasized the significance of the financial experience of the audit committee to enhancing the quality of the financial reports. According to Azubike and Nweze (2019) the various stakeholders on internal control (corporate governance) notably audit committees, internal and external auditors, and institutional investors appear uncertain about their roles in enhancing and improving corporate profitability. It is being wrongly taught that the systems of control mechanisms are solely the problem of the management and board in the firm.

### **Risk Management committee**

Risk committee has the ability for the immediate identification, prioritization and oversight economic risk, and in addition backing internal audit review functions of the audit review committees (Fraser and Henry, 2007). The stakeholders can hope their personal satisfaction of financial instruments regulations are higher along with organizations existing RMCs over to organizations having no such committees. This may be as a result RMC oversees different financial dangers that confronted towards the firm, subsequently those financial reporting value may be significantly improved (Yatim 2010). Research on risk committee is very limited. Previously, majority of moments, role of risk assessment falls under audit committee review. However, Yatim (2010) proposes that the development of risk assessment board in Malaysia is not just connected with competent structure of board, extent of the entity and the unpredictability of a company's operations, but also their role linked with big 4 audit review firms which have been connected with high-quality regulations. Likewise Risk committee has been accounted for to a competent board of directors (Yatim 2010). An effective risk management system is seen to help company achieve its business objectives, enhance its financial reporting as well as safeguard its reputation (Subramaniam, Mcmanus & Zhang, 2009). Adequate supervision is needed so that risk management system established by the company can be run effectively.

### **Return on equity (ROE)**

Return on equity (ROE) can be defined as the amount of net income returned as a percentage of shareholders' equity. It is one of the all time favorites and perhaps most widely used overall measure of corporate financial performance which was also confirmed by Monteiro (2006). ROE is popular among investors because it links the income statement (net profit/loss) to the balance

sheet (shareholders' equity). The fact that ROE represents the end result of structured financial ratio analysis, called Du Pont analysis, also contributes towards its popularity among analysts, financial managers, and shareholders alike (Stowe, Robinson, Pinto &McLeavy, 2002). However, for different reasons, ROE could be a misleading measure of corporate financial performance (Wet &Toit, 2007). First, earnings can be manipulated within the legal framework via changes in accounting policy. Second, ROE increases with more financial leverage, as long as the returns 132133 earned on the borrowed funds exceed the cost of the borrowings. An increase in leverage beyond a certain level may translate into an increase into the firm's systematic risk or beta. Third, ROE is also susceptible to inflation; inflation had a negative relationship with the profit margin which will, in turn, reduce ROE and expected growth (Fuller & Perry, 1981).

### **Review of Empirical Studies**

Tariq and Essia (2020) investigated the impact of audit committees' features as predictor variables of corporate profitability with a sample of firms belong to non-financial sector in Muscat securities market (MSM). This work analyzed cross sectional data for 60 non-financial firms. It used annual reports for the year of 2019 to analyze the impact of audit committees features on corporate profitability. The present work tested its hypotheses and utilized its variables via utilizing the smart PLS for data analysis. The findings revealed that a positive association between all the predictors and dependent variables are exist among the whole variables; audit committee, audit independence, meeting of audit committee, and corporate profitability measured by management accountings' indicators represented by ROA and ROE. This work is a new in its kind to be applied in oman context via examining the relation between its predictors of audit committees' features towards their impact on corporate profitability. Abdessetar, Suhaimi and Ifa (2021) reviewed existing literature related to the risk management committee attributes (RMC) that can facilitate transactions between board committees and add value to corporations. The emphasis of this study is on RMC as it has become a crucial element, especially after the collapse of large corporations. RMCs have attracted the attention of academics and become one of the important factors that enhance the companies' performance as well as the quality of financial reporting (FRQ), and its demographic attributes are expected to play an important role in corporations. Adelabu, Sunday Olushola (2019) analyzed the financial

performance of commercial banks in Ethiopia for the period between 2009 and 2012. A sample of the top seven commercial banks was selected based on the value of their total assets at the end of the 2009 financial year. These are the banks that dominate the sector with the top 7 banks controlling 90.4% of the total industry assets which makes them systemically important banks. The results of the study indicated that CBE showed the highest level of ROE all the time but this was driven by its high leverage levels. Moreover, all banks were found to be unduly liquid affecting their revenue generating capacity. This is partly because of government imposed loan restriction. Dashen Bank has continuously improved its performance throughout the study period in most of the parameters used to measure its performance. Wegagen Bank had the most stable earnings over time as a result of its policy to use high level of equity financing. For a sustained good banking performance in the country, it is recommended that the banks invest more in interest bearing assets, mainly loans, to fully utilize their revenue generating capacity. Lamidi, Adebayo, Olorede, and Oyekanmi (2022) examined the characteristics of risk committees as well as their effects on the financial performance of deposit money banks (DMBs) in Nigeria. The study made use of secondary data gathered from the bank's annual reports, and 13 deposit money banks were chosen as a sample using the purposive sample technique. The data was analysed using the panel regression approach. Using a fixed effect model, the study discovered that the size and independence of risk management committees have a negative impact on the financial performance of deposit money banks in Nigeria, while the size of the committees is insignificant. Gender diversity and meetings have been shown to have a positive impact on the financial performance of DMBs in Nigeria. Halim, Mustika, Sari, Anugerah&Mohd-Sanus (2017) examined the effect of the Risk Management Committee on firm performance, and the intervening effect of the Risk Management Committee on the relationship between Corporate Governance, Firm Size, Financial Reporting Risk, and Firm Performance. Using the purposive sampling method, 299 firms were selected as the sample. This study used secondary data obtained from the companies' annual reports, and the data was then analyze using SPSS, version 20.0. The results of this study indicate that the entire research hypothesis is accepted. This study found that the Risk Management Committee affects firm performance, and that Risk Management Committee acts as the intervening variable in the relationship between corporate governance, firm size, and financial reporting risk on firm performance. Okoroyibo and Nwokeji

*Received: 2 March 2023*

*Revised: 23 March 2023*

*Final Accepted for publication: 4 April 2023*

Copyright © authors 2023



Where;

ROE= Return on equity

ADC=Audit committee

RMC=Risk Management committee

e =error term

## ANALYSIS AND RESULTS

**Table 1: Descriptive analysis**

	ROE	ADC	RMC
Mean	-0.035241	5.700000	4.000000
Median	-0.011297	6.000000	4.000000
Maximum	0.105830	6.000000	5.000000
Minimum	-0.278695	5.000000	3.000000
Std. Dev.	0.141414	0.483046	0.942809
Skewness	-0.402971	-0.872872	0.000000
Kurtosis	1.724183	1.761905	1.250000
Jarque-Bera	0.948854	1.908541	1.276042
Probability	0.622242	0.385093	0.528337
Sum	-0.352405	57.000000	40.000000
Sum Sq. Dev.	0.179982	2.100000	8.000000
Observations	10	10	10

Source: E-Views 9.0 Output, 2023

### Interpretation of Descriptive Statistics

The descriptive statistics in table 1 revealed that the average return on equity of the sampled companies is -0.035; the maximum of 0.106 with a minimum of -0.279 with a standard deviation of 0.141. The average ADC from the sampled observations is 5.700; standard deviation of 0.483; a maximum observation of 6.000 with a minimum value of 5.000. The mean of RSM is at the average of 4.000; standard deviation of 0.943; a maximum observation of 5.000 with a minimum value of 3.000.

**Table 2: Correlation Matrix**

	ROE	ADC	RSM
ROE	1		
ADC	0.03643	1	
RSM	-0.65885	-0.24398	1

Source: E-Views 9.0 Correlation Output, 2023

The Pearson Correlation Matrix in table 2 shows the existence of a positive relationship between ADC and ROE at a coefficient value of 0.036. On the other hand, the coefficient factors of -0.659 is an indication that RMC is negatively correlates with ROE.

## Test of Hypotheses

### Hypothesis One

**Table 3 Panel Least Square Regression analysis testing the relationship between ROE and ADC**

Dependent Variable: ROE

Method: Least Squares

Date: 02/28/23 Time: 18:10

Sample: 2012 2021

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.096034	0.591487	-0.162361	0.8750
ADC	0.010666	0.103436	0.103113	0.9204
R-squared	0.001327	Mean dependent var		-0.035241
Adjusted R-squared	-0.123507	S.D. dependent var		0.141414
S.E. of regression	0.149893	Akaike info criterion		-0.780937
Sum squared resid	0.179743	Schwarz criterion		-0.720420
Log likelihood	5.904683	Hannan-Quinn criter.		-0.847324
F-statistic	0.010632	Durbin-Watson stat		0.864455
Prob(F-statistic)	0.920411			

Source: E-Views 9.0 Regression Output, 2023

### Interpretation of Regression Analysis

Table 3 shows that there is a positive insignificant relationship between audit committee (ADC) and return on equity (ROE) of healthcare companies in Nigeria. This can be observed from the beta coefficient ( $\beta_1$ ) of 0.010666 with p value of 0.9204 which is not significant at 5%.

The F-statistic of 0.010632 with an associated Prob(F-statistic) of 0.920411 is not statistically significant at 5%, which reveals that the model is well fitted, while the coefficient of determination  $R^2$  of 0.124, explains the individual variation of the dependent variable (ROE) as a result of the changes in the independent variable, ADC. It can be said that ADC has combined predictive power of 12% in affecting ROE of healthcare companies in Nigeria, while the remaining 88% is accounted for by other factors which are not captured in the model.

### Decision

**Received:** 2 March 2023

**Revised:** 23 March 2023

**Final Accepted for publication:** 4 April 2023

Copyright © authors 2023

Since the P-value of the test 0.920411 is higher than 0.05 (5%), this study upholds that audit committee has not significantly affect return on equity of healthcare companies in Nigeria Thus,  $H_0$  is Accepted and  $H_1$  Rejected.

### Hypothesis Two

**Table 4 Panel Least Square Regression analysis testing the relationship between ROE and RMC**

Dependent Variable: ROE  
Method: Least Squares  
Date: 02/28/23 Time: 18:08  
Sample: 2012 2021  
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.360052	0.163513	2.201973	0.0588
RSM	-0.098823	0.039893	-2.477194	0.0383
R-squared	0.434089	Mean dependent var		-0.035241
Adjusted R-squared	0.363350	S.D. dependent var		0.141414
S.E. of regression	0.112835	Akaike info criterion		-1.348926
Sum squared resid	0.101854	Schwarz criterion		-1.288409
Log likelihood	8.744632	Hannan-Quinn criter.		-1.415313
F-statistic	6.136491	Durbin-Watson stat		1.953975
Prob(F-statistic)	0.038279			

Source: E-Views 9.0 Regression Output, 2023

### Interpretation of Regression Analysis

Table 4 shows that there is a significant negative relationship between risk management committee (RMC) and return on equity (ROE) of healthcare companies in Nigeria. This can be observed from the beta coefficient ( $\beta_1$ ) of -0.098823 with p value of 0.038 which is t significant at 5%.

The F-statistic of 6.136491 with an associated Prob(F-statistic) of 0.038279 is statistically significant at 5%, which reveals that the model is well fitted, while the coefficient of determination  $R^2$  of 0.363, explains the individual variation of the dependent variable (ROE) as a result of the changes in the independent variable, RMC. It can be said that RSM has combined predictive power of 36% in affecting ROE of healthcare companies in Nigeria, while the remaining 67% is accounted for by other factors which are not captured in the model.

### Decision

Since the P-value of the test 0.0383 is less than 0.05 (5%), this study upholds that risk management committee has significantly affect return on equity of healthcare companies in Nigeria; thus,  $H_{01}$  is Rejected and  $H_1$  Accepted.

## **CONCLUSION AND RECOMMENDATIONS**

This study was on corporate governance and financial performance: an empirical study of healthcare companies in Nigeria. Data were collected from the sampled companies and hypotheses were tested using regression analysis via E-View 9.0. Thus the study revealed that audit committee has a positive effect on return on equity, and this effect was not statistically significant at 5% level of significance, while risk management committee was significantly affect return on equity of healthcare companies in Nigeria; the finding was in line with Tariq and Essia (2020) who revealed that a positive association between audit committee, audit independence, meeting of audit committee, and corporate profitability. Egiyi (2022) demonstrated that corporate governance metrics (such as board size, audit committee size, and audit quality) have a significant impact on a company's profitability. The study recommended that it is essential that the audit committee is paid attention and more seriously in each corporate organization. The audit committee considers an integral part of control mechanisms feature because it leads to enhance good control mechanisms and enhance the integrity

## **References**

- Abdesseitar, B., Suhaimi, B. I. & Ifa R. B. M. (2021). Risk Management Committee Attributes: A Review of the Literature and Future Directions. *Universal Journal of Accounting and Finance* 9(3): 388-395, 2021 <http://www.hrpub.org> DOI: 10.13189/ujaf.2021.090313.
- Al- Haddad, W., Alzurqan, S., & Al\_Sufy, F. (2011). The Effect of Corporate Governance on the Performance of Jordanian Industrial Companies: An empirical study on Amman Stock Exchange. *International Journal of*
- Azubike, J. U., & Nweze, A. U. (2019). Challenges of Corporate Governance in Nigeria: The Roles of Auditors and Institutional Investors. *International Journal of Economics and Business Management*, 5(1), 77-83.
- Bedard, J., & Gendron, Y. (2010). Strengthening the financial reporting system: Can Audit committees Deliver? *International Journal of Auditing* 14(12):174-210
- Egiyi, M.A. (2022). Corporate governance and firm performance: Evidence from Nigeria publicly traded Enterprises. *Global Journal of Finance and Business Review*, 5(2), 1-12.

- Eyenubo, S. A., Mohammed, M., & Ali, M. (2017). Audit committee effectiveness of financial reporting quality in listed companies in Nigeria stock exchange. *International Journal of Academic Research in Business and Social Sciences*, 7(6), 487-505.
- Fiolleau, K., Hoang, K., & Pomeroy, B. (2019). Auditors' communications with audit committees: The influence of the audit committee's oversight approach. *Auditing: A Journal of Practice & Theory*, 38(2), 125-150.
- Fraser, I., Henry, W.(2007). Embedding risk management: structures and approaches. *Managerial Auditing Journal* 22(4): 392-409.
- Hashim, F., Ahmed, E. R., & Huey, Y. M. (2019). Board Diversity and Earning Quality: Examining the Role of Internal Audit as a Moderator. *Australasian Accounting Business & Finance Journal*, 13(4) 73-91.
- Halim, E. H.; Mustika, G.; Sari, R. N.; Anugerah, R., & Mohd-Sanusi, Z. (2017). Corporate governance practices and financial performance: The mediating effect of risk management committee at manufacturing firms. *Journal of International Studies*, 10(4), 272-289. doi:10.14254/2071-8330.2017/10-4/21
- Kallamu, B. S., & Saat, N. A. M. (2015). Audit committee attributes and firm performance: evidence from Malaysian finance companies. *Asian Review of Accounting*, 23(6), 20-31.
- Kibiya, U.M., Ahmad, A.C. & Amran, N.A. (2016). Audit committee characteristics and financial reporting quality: Nigerian non-financial listed firms. *European Proceedings of Social and Behavioural Sciences*, 1(1), 753-760
- Lamidi, W. A., Adebayo, A. O., Olorede, T. E., Oyekanmi, M. O. (2022). Risk management committees' characteristics and the financial performance of deposit money banks (DMBS) in Nigeria. *Journal of Accounting and Management ISSN : 2284 – 9459 J A M V o l . 1 2 , N o . 1 ( 2 0 2 2 )* 109
- Monteiro, A. 2006. 'A quick guide to financial ratios'. The Citizen, Moneyweb Business Insert, 6 May:3.
- Mohammad, I., Aly, S., Dixon, R., & Startling, R. (2014). Corporate governance and corporate social responsibility disclosure : evidence from the US banking sector. *Journal of Business Ethics*, 125(4), 601-615.
- Nwachukwu, E. (2021) Nigeria: A health sector in crisis, in Premium Times August 6, 2021 retrieved from <https://www.premiumtimesng.com/opinion/477854-nigeria-a-health-sector-in-crisis-by-emmanuel-nwachukwu.html?tztc=1> on 15<sup>th</sup> March, 2023
- Onipe A. y. (2022) Remuneration committee and profitability: Evidence from Nigeria. *Dinasti International Journal of Management science* 4(3):220-231.
- Osevwe-Okoroyibo, E. E. & Emeka-Nwokeji, N. A. (2021). Examining effect of audit committee attributes on firm performance: evidence from listed food and beverages firms in Nigeria *European Journal of Accounting, Auditing and Finance Research* 9(8)..26-43, 2021 Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online) 26 <https://www.eajournals.org/> ULR: <https://doi.org/10.37745/ejaafr.2013>
- Owolabi, S. A.& Dada, S. O. (2011). Audit committee: An instrument of effective corporate governance. *European Journal of Economics, Finance and Administrative Sciences*. Retrieved from: <http://www.eurojournals.com> on December 17, 2012.
- Ross, S. A., Westerfield, R. W, Jaffe, J. (2005), "Corporate Finance." McGraw-Hill Inc., 7th Ed.

- Stowe, J.D., Robinson, T.R., Pinto, J.E. & McLeavy, D.W. 2002. Analysis of equity investments: Valuation. Baltimore: AIMR.
- Subramaniam, N.; Mcmanus, L. & Zhang, J. (2009). Corporate governance, firm characteristics and risk management committee formation in Australian companies. *Managerial Auditing Journal*, 24(4), pp. 316-339.
- Tariq T. Y. A., & Essia R. A. (2020). Audit Committee Impact on Corporate Profitability in Oman Companies: an Auditing and Management Accounting Perspective. *JURNAL Riset Akuntansi dan Keuangan Indonesia* URL : <http://journals.ums.ac.id/index.php/reaksi/index>
- Van Horne, James, and Wachowicz, John (2005), "Fundamentals of Financial Management", Pearson Education Limited, 12th Ed.
- Wet, J.H.v.H. & Toit, E. (2007). Return on equity: A popular, but flawed measure of corporate financial performance. *S.Afr.J.Bus.Manage.*2007,38(1) 59
- Yatim, P.(2010). Board structures and the establishment of a risk management committee by Malaysian listed firm. *Journal of Management Governance* 14(1): 17-36.