Interplay of Boardroom Integrity, Audit Independence and Earnings of Commercial Banks in Nigeria

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Abstract
This study examined the effect of audit independence and audit committee meetings on the earnings per share (EPS) of commercial banks in Nigeria. Data were collected from 15 commercial banks over the period 2020 to 2023, generating a balanced panel of 60 observations. The study employed panel least squares regression to analyze the relationship between audit committee characteristics and the financial performance of banks, measured by EPS. The results revealed that audit independence had a positive and statistically significant effect on EPS, with a coefficient of 97.25 and a p-value of 0.007, indicating that higher levels of audit independence were associated with improved earnings performance. Conversely, the frequency of audit committee meetings showed a negative but statistically insignificant relationship with EPS, suggesting that merely increasing meeting frequency did not necessarily enhance financial outcomes. The model explained approximately 23% of the variation in EPS, as indicated by the R-squared value of 0.23. These findings showed the critical role of audit committee independence in safeguarding financial integrity and enhancing shareholder value in Nigeria's banking sector. The study recommended that commercial banks focus on strengthening audit independence to boost earnings quality rather than solely increasing the number of audit meetings. This research contributes to the existing literature by providing empirical evidence specific to the Nigerian banking industry, highlighting areas for improving corporate governance and financial performance.

Keywords: *Audit Independence, Audit Committee, Financial Performance*

1. INTRODUCTIONS

In recent decades, corporate governance has emerged as a vital element shaping the performance and sustainability of organizations worldwide. The global financial crises and corporate scandals that shook markets in the early 2000s brought into sharp focus the critical need for transparency, accountability, and ethical conduct within firms, particularly in the banking sector (Tricker, 2019). Good governance is no longer viewed as merely a regulatory requirement but as a strategic advantage that can enhance investor confidence and drive firm performance (Mallin, 2020). This shift has sparked intense interest among scholars, regulators, and practitioners to understand how specific boardroom practices influence financial outcomes. The board of directors plays a pivotal role in this governance ecosystem, acting as the bridge between management and shareholders while safeguarding stakeholders' interests. As the ultimate oversight body, the board is responsible for ensuring that companies adhere to legal standards and ethical norms, while also setting strategic directions that foster growth (Solomon, 2017). Within this context, the integrity of the boardroom manifested through transparency, independence, and effective engagement has become a fundamental concern. Researchers have increasingly focused on how elements like audit committee independence and board activities can affect firm performance metrics, recognizing that these governance attributes are crucial in mitigating risks such as earnings manipulation and financial misreporting (Klein, 2018).

In the financial sector, especially commercial banks, governance issues assume heightened importance due to the sector's systemic impact on the economy. Banks serve as intermediaries that facilitate credit, investment, and economic growth, making their stability and transparency vital for public confidence (Becht, Bolton & Röell, 2020). However, the complex nature of banking operations also presents unique challenges in governance oversight, necessitating robust mechanisms to monitor financial reporting and internal controls. The audit committee, a key board sub-committee, has been widely recognized for its role in reinforcing corporate governance by overseeing financial disclosures and ensuring compliance with regulatory frameworks (Dhaliwal et al., 2019). Despite the acknowledged significance of audit committees, debates persist on which specific characteristics of these committees best contribute to improved financial performance. Independence of audit committees is often highlighted as a critical feature that reduces conflicts of interest and promotes unbiased oversight (Carcello et al., 2021). On the other hand, the frequency and quality of audit committee meetings also come under scrutiny, as they reflect the committee's engagement and diligence in executing its responsibilities (Abbott et al., 2016). While theoretical arguments abound regarding their importance, empirical findings have been mixed, with some studies confirming positive impacts on firm profitability and others finding limited or no significant effects (Gulzar & Wang, 2011; Krishnan, 2005).

In the Nigerian banking industry, these governance discussions take on a local flavor shaped by the country's regulatory environment, economic realities, and corporate culture. Over the past two decades, Nigeria has witnessed significant banking reforms aimed at strengthening governance and restoring public trust, especially following the banking crises of the early 2000s (Sanusi, 2010). The Central Bank of Nigeria (CBN) and other regulatory bodies have introduced codes of corporate governance that emphasize audit committee independence and accountability (CBN, 2014). Yet, despite these efforts, challenges remain in translating governance codes into effective practice, as cases of financial misstatements and bank failures continue to raise questions about boardroom effectiveness (Adegbite, 2015). While several Nigerian studies have explored broad aspects of corporate governance and financial performance, fewer have delved deeply into the specific roles of audit committee independence and meeting frequency in driving earnings per share (EPS)—a key indicator of shareholder value (Olusanya, 2017). Most existing research tends to treat governance variables in isolation or focus primarily on board size, CEO duality, or ownership structure (Odetayo & Akinbola, 2019). This leaves a gap in understanding how audit committee dynamics interact to influence banks' profitability, especially within the country's unique economic and institutional context.

Furthermore, many prior studies have not sufficiently accounted for control variables such as firm size, market conditions, or regulatory changes, which can confound the relationships between governance factors and financial outcomes (Uwuigbe et al., 2018). Including such controls is crucial for isolating the genuine effects of audit committee independence and meeting frequency, thereby enhancing the robustness and relevance of findings. Addressing this gap can provide more actionable insights for policymakers, bank executives, and investors seeking to foster governance practices that truly impact financial health. Given this background, the present study aims to investigate the effect of audit committee independence and meeting frequency on the earnings per share of commercial banks in Nigeria.

Hypotheses

H_{01}: Audit committee independence has no significant effect on the earnings per share of commercial banks in Nigeria.

H_{02}: Audit committee meeting frequency has no significant effect on the earnings per share of commercial banks in Nigeria.

2. LITERATURE REVIEW

Audit Dynamics

Auditing is often described as the heartbeat of financial accountability within organizations. At its core, audit dynamics refers to the complex interplay of factors that influence how audits are planned, executed, and interpreted. This concept goes beyond the mere checking of numbers—it delves into the behaviors, relationships, and environmental conditions that shape audit outcomes (Carcello et al., 2021). Understanding audit dynamics means recognizing that auditing is not a static process; rather, it is a living, evolving practice that reacts to changes in regulations, technology, and stakeholder expectations. One of the key elements within audit dynamics is the human factor. Auditors are individuals with judgment, experience, and sometimes biases that can influence their decisions. For instance, the level of auditor independence and their relationship with the client can impact the thoroughness and objectivity of the audit (Krishnan, 2005). The audit team's competence and ethical orientation often determine whether they dig deeper when anomalies arise or simply accept explanations at face value. This human dimension means that audit results can vary, making it essential to continually evaluate the social and psychological dynamics at play.

The environment surrounding the audit also plays a significant role. Organizations operate within complex regulatory, economic, and cultural contexts, all of which shape audit dynamics (Gulzar & Wang, 2011). For example, in countries with stringent corporate governance codes, audits may be more rigorous and detailed due to higher expectations for transparency. Conversely, in settings where regulations are lax or poorly enforced, auditors might face pressure to overlook certain issues, leading to weaker audit quality. This illustrates how external pressures can subtly influence audit effectiveness. Technology is another powerful force reshaping audit dynamics. With the rise of big data analytics, artificial intelligence, and automated tools, audits are becoming faster and more data-driven (Dhaliwal et al., 2019). These advancements allow auditors to analyze vast amounts of information with precision, uncovering patterns and inconsistencies that were once difficult to detect. However, this also introduces new challenges, such as the need for auditors to continuously update their skills and maintain skepticism even in the face of seemingly flawless automated reports. Communication dynamics within audit teams and between auditors and clients are equally important. Effective audits rely heavily on clear, open dialogue. When auditors build trust and communicate constructively with management, they can gain deeper insights and encourage corrective actions (Mallin, 2020). On the other hand, poor communication or adversarial relationships may cause auditors to miss critical issues or lead to conflicts that undermine the audit's purpose. Thus, interpersonal dynamics are often the unsung drivers of audit quality.

Furthermore, audit committees and boards have emerged as crucial players within audit dynamics. Their role in overseeing the audit process adds an additional layer of scrutiny and accountability (Abbott et al., 2016). An engaged and independent audit committee can champion audit integrity by ensuring auditors remain objective and that their findings are taken seriously by management.

This oversight function helps bridge the gap between auditors and corporate governance, enhancing the overall reliability of financial reporting.

Earnings Per Share

Performance is the heartbeat of every business. Investors, managers, and stakeholders constantly seek ways to measure how well a company is doing, not just in terms of total profits but also how those profits translate to individual shareholders. This is where Earnings Per Share (EPS) comes into play a key financial metric that tells a story about a company's profitability on a per-share basis. Unlike total earnings, EPS allows stakeholders to understand how much money the company generates for each share they own, making it a powerful tool for comparing companies of different sizes and industries (Penman, 2013).

At its core, EPS is simply the net income available to common shareholders divided by the weighted average number of outstanding shares during a given period (White et al., 2003). This calculation reflects the amount of profit attributed to each share, helping investors assess the company's ability to generate wealth. EPS is often regarded as a direct indicator of financial health and operational efficiency, giving a snapshot of performance that is easy to understand and communicate across the business world. But EPS is more than just a number; it's a window into the company's success story. For shareholders, an increasing EPS often signals growth, stronger profitability, and potentially higher dividends or capital gains. Conversely, a declining EPS may raise red flags about operational challenges or shrinking market share. Because of this, EPS plays a vital role in investment decisions and is frequently used in valuation metrics like the Price-to-Earnings (P/E) ratio, which compares a company's stock price to its earnings per share (Ross et al., 2019).

However, it's important to recognize the limitations of EPS as well. For instance, companies can engage in share buybacks—reducing the number of outstanding shares—which can artificially inflate EPS without an actual increase in profit (Penman, 2013). Similarly, accounting choices and one-time events can impact net income, making EPS potentially volatile or less reflective of ongoing performance. That's why analysts often look at "normalized" or "adjusted" EPS figures to gain a clearer picture, removing irregular items that could distort the company's true earnings power.

Moreover, EPS alone doesn't tell the whole story about a company's financial health or future prospects. It should always be considered alongside other performance measures such as cash flow, revenue growth, and debt levels. Companies with strong EPS but poor cash flow might struggle to sustain their earnings, while a growing company might have low EPS today but promising potential for tomorrow (White et al., 2003). Investors must dive deeper and look at the broader financial context to make well-rounded decisions. In the fast-moving world of financial markets, EPS remains a trusted compass that guides countless investment choices. It serves as a bridge between the company's accounting records and the investor's portfolio, translating complex financial data into a straightforward figure. By understanding EPS, investors can better navigate the nuances of corporate performance and make informed decisions that align with their goals and risk appetite (Ross et al., 2019).

Agency Theory

Agency Theory deals with the conflicts that can arise when one party (the principals, often shareholders) hires another party (the agents, typically managers or executives) to run the company on their behalf (Jensen & Meckling, 1976). At the center of this theory is the idea that principals and agents have different interests and access to different information. Shareholders want the company to maximize value and profits, which ultimately increases the worth of their shares. However, managers might prioritize personal benefits, job security, or other goals that do not always align perfectly with shareholder interests. This misalignment creates what's called the agency problem where agents may act in ways that are not fully aligned with the principals' best interests, sometimes even at their expense. Because shareholders typically cannot observe every decision made by managers, there is an inherent risk of information asymmetry. This means managers often have more information about the company's actual operations and financial health than the shareholders do. This gap can lead to problems such as earnings manipulation or lack of transparency practices that undermine trust and can distort key financial measures like earnings per share (Eisenhardt, 1989).

Agency Theory also helps explain why audit committees and independent auditors are so important in public companies. Independent audits serve as an external check, reducing the agency problem by verifying the accuracy of financial statements and ensuring managers are not misleading shareholders. A strong, independent audit committee acts as the watchdog in the boardroom, promoting integrity and transparency, which ultimately supports shareholders' confidence in the company's reported earnings (Fama & Jensen, 1983). Moreover, the theory suggests that proper corporate governance mechanisms like regular audit committee meetings and clearly defined roles—can help align the interests of managers with those of shareholders. When managers know that their actions are closely monitored, and that there are consequences for manipulating earnings or hiding financial issues, they are more likely to act responsibly. This alignment fosters better financial performance and boosts earnings per share, benefiting all stakeholders (Shleifer & Vishny, 1997).

However, Agency Theory also acknowledges that eliminating agency problems entirely is almost impossible. There will always be some level of conflict or self-interest in business relationships. What matters is how companies design their governance systems to minimize risks and enhance accountability. For example, audit independence isn't just about hiring external auditors but ensuring those auditors can operate without undue influence from management. Similarly, frequent audit committee meetings help maintain active oversight, signaling to shareholders that the board is serious about integrity (Jensen, 1993). Interestingly, Agency Theory also touches on the role of incentives in shaping behavior. Properly structured compensation and performance-based rewards can encourage managers to act in shareholders' best interests. But if incentives focus too narrowly on short-term earnings targets, they might unintentionally encourage earnings manipulation or risky behavior. This highlights the delicate balance companies must strike between motivating management and maintaining ethical, transparent reporting practices (Eisenhardt, 1989).

Prior Studies

Over the past decade, a growing body of research has highlighted the pivotal role audit committees play in shaping firm performance across various economies. Studies from Nigeria have been especially insightful, revealing how audit committee independence and meeting frequency significantly enhance earnings quality and profitability in the banking sector (Onuorah & Nnadi, 2017; Ogundipe & Akinwunmi, 2020). These findings underscore that when audit committees actively engage through regular meetings and maintain independence from management, they provide stronger oversight that translates into improved financial outcomes (Eke & Akinbobola, 2021; Olaniyi & Ibadin, 2019). Moreover, research emphasizes that such governance mechanisms help curb earnings manipulation, fostering investor confidence and sustainable growth (Uwuigbe & Uwuigbe, 2019; Fagbemi, Uadiale, & Noah, 2017).

Moving beyond Nigeria, studies in emerging and developed markets echo these themes, broadening the understanding of audit committee dynamics. For instance, research in Malaysia and Bangladesh has shown that audit committees enriched with financial expertise and appropriate size significantly boost firm performance by enhancing the quality of financial reporting and risk oversight (Hamid & Isa, 2018; Karim & Islam, 2017). In the UK and South Africa, audit committees with strong financial acumen help mitigate fraud and reduce corporate risk-taking, which ultimately stabilizes firms and protects shareholder interests (Jizi et al., 2016; Kassem & Higson, 2021; Ntim, Opong, & Danbolt, 2017). This body of work paints a clear picture: expertise and active participation within audit committees are crucial levers for corporate accountability and performance.

Meanwhile, the nuanced relationship between audit committee tenure and earnings quality has been explored with some caution. Carcello and Nagy (2017) reveal that while continuity in audit committee membership can build experience, excessive tenure without rotation might risk complacency, potentially weakening oversight and impairing earnings reliability. This insight prompts firms to strike a balance between retaining knowledgeable committee members and refreshing oversight to maintain independence and vigilance. Complementing this, Guo and Zhou (2018) demonstrate that in China, independent audit committees play a critical role in controlling corporate risk-taking behavior, which can affect firm valuation and long-term success.

Recent Nigerian studies continue to deepen this understanding by focusing on the effectiveness of audit committees in mitigating earnings management and improving financial transparency. Adegbie and Olowookere (2022) highlight that regular meetings and the presence of independent members are instrumental in curbing aggressive accounting practices that can distort financial statements. This is particularly relevant in emerging markets where regulatory frameworks are evolving, and corporate governance practices are being strengthened to attract foreign investment. These findings align with global evidence suggesting that robust audit committees not only enhance internal control but also serve as a market signal of reliability to investors (Islam & Karim, 2020).

3. METHODOLOGY

The study adopts an ex post facto research design. This design is appropriate as it enables the analysis of existing data without manipulating any variables. The population of the study comprises all commercial banks listed on the Nigerian Exchange Group (NGX) as of 2024. A purposive sampling technique was employed to select 15 commercial banks based on the availability of complete and consistent financial and governance data over the study period (2020–2023). Secondary data were extracted from the audited annual reports and corporate governance disclosures of the selected banks, sourced from their official websites and the NGX portal. Audit committee independence was measured as the proportion of independent non-executive directors on the committee, while audit committee meeting frequency was captured by the number of meetings held annually. Earnings per share (EPS), the dependent variable, was obtained directly from the income statements of each bank. Descriptive statistics and multiple regression analysis were employed to examine the relationship between the independent variables and EPS, using E-Views statistical software. The regression model was specified as:

EPS = β_0+ β_1AIND + β_2AMEET + ϵ

4. RESULTS AND IMPLICATION

Descriptive Statistics Result

	EPS	AUDINDP	AUDMEET
Mean	381.9900	3.533333	4.116667
Median	414.5000	4.000000	4.000000
Maximum	734.0000	5.000000	8.000000
Minimum	5.000000	2.000000	2.000000
Std. Dev.	192.5243	0.791194	1.194502
Skewness	-0.363751	-0.006749	0.555986
Kurtosis	2.345735	2.574489	4.810964
Jarque-Bera	2.393304	0.453104	11.29018
Probability	0.302204	0.797278	0.003535
Sum	22919.40	212.0000	247.0000
Sum Sq. Dev.	2186871.	36.93333	84.18333
Observations	**60**	**60**	**60**

Source: Eviews 9.0

The descriptive statistics provide important insights into the data for the study. The average earnings per share (EPS) across the 15 commercial banks is 381.99, with a median of 414.50. This suggests that most banks have EPS values clustered around the mid-300s to 400s range. However, there is considerable variation, as EPS ranges from a low of 5.00 to a high of 734.00, and a standard deviation of 192.52 confirms this wide spread. The negative skewness value (-0.36) indicates that the distribution of EPS is slightly tilted to the left, meaning a few banks have significantly lower EPS values. The kurtosis of 2.35 suggests the distribution is relatively flat compared to a normal distribution. The Jarque-Bera probability of 0.3022 indicates that EPS follows a normal distribution, as the value is above the 0.05 threshold for significance.

Audit committee independence (AUDINDP) has an average value of 3.53 members, with a median of 4. This implies that, on average, audit committees across the banks have between 3 to 4 independent members. The values range from 2 to 5, with a standard deviation of 0.79, suggesting relatively low variability. The skewness is almost zero, indicating a nearly symmetrical distribution, and the kurtosis value of 2.57 is close to normal. On the other hand, audit committee meetings (AUDMEET) have an average of 4.12 meetings per year, ranging from 2 to 8. The standard deviation is 1.19, showing moderate variation. A positive skewness (0.56) indicates a slight tilt to the right, meaning some banks hold more meetings than the average. The kurtosis value of 4.81 suggests a more peaked distribution, and the Jarque-Bera test result ($p = 0.0035$) indicates that the distribution of audit meetings significantly deviates from normality.

Regression Analysis Result
Dependent Variable: EPS
Method: Panel Least Squares
Date: 06/05/25 Time: 12:27
Sample: 2020 2023
Periods included: 4
Cross-sections included: 15
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUDINDP	97.24583	34.89177	2.787071	0.0072
AUDMEET	-16.10705	23.11102	-0.696943	0.0887
C	104.6954	113.6465	0.921238	0.3608

R-squared	0.229207	Mean dependent var	381.9900
Adjusted R-squared	0.198653	S.D. dependent var	192.5243
S.E. of regression	182.7812	Akaike info criterion	13.30316
Sum squared resid	1904311.	Schwarz criterion	13.40788
Log likelihood	-396.0949	Hannan-Quinn criter.	13.34412
F-statistic	4.228789	Durbin-Watson stat	1.464003
Prob(F-statistic)	0.019390		

Source: Eviews 9.0

The panel least squares regression results show how audit committee independence and meeting frequency influence the earnings per share (EPS) of commercial banks in Nigeria. The coefficient for audit committee independence (AUDINDP) is 97.25 and statistically significant at the 1% level ($p = 0.0072$), indicating a strong positive relationship between the number of independent audit committee members and EPS. This suggests that as audit independence increases, the financial performance of banks, as measured by EPS, also improves—likely due to enhanced oversight and governance. On the other hand, the coefficient for audit committee meetings (AUDMEET) is -16.11, but this effect is not statistically significant ($p = 0.0887$). While the negative sign may suggest that more frequent meetings are associated with lower EPS, the lack of significance means this relationship should be interpreted with caution and may not hold across the broader population. Looking at the overall model, the R-squared value is 0.229, meaning about 23% of the variation in EPS can be explained by audit committee independence and meeting frequency. The adjusted R-squared of 0.199 also confirms a modest explanatory power, which is typical in studies involving financial performance across firms. The F-statistic of 4.23 with a p-value of 0.019 indicates that the overall regression model is statistically significant at the 5% level—implying that, taken together, the independent variables meaningfully influence EPS. However, the Durbin-Watson statistic of 1.46 is slightly below the threshold of 2, suggesting the possible presence of mild positive autocorrelation in the residuals.

Test of Hypotheses

H_{01}: ***Audit committee independence has no significant effect on the earnings per share (EPS) of commercial banks in Nigeria***.

The p-value for audit committee independence (AUDINDP) is 0.0072, which is less than the 0.05 significance level. This indicates that audit committee independence has a statistically significant and positive effect on EPS. Therefore, we reject the null hypothesis (H_{01}) and conclude that audit committee independence significantly influences the earnings per share of commercial banks in Nigeria.

H_{02}: ***Audit committee meeting frequency has no significant effect on the earnings per share (EPS) of commercial banks in Nigeria.***

The p-value for audit committee meetings (AUDMEET) is 0.0887, which is greater than the 0.05 significance level. This means that audit committee meeting frequency does not have a statistically significant effect on EPS. Therefore, we fail to reject the null hypothesis (H_{02}) and conclude that audit committee meeting frequency does not significantly influence the earnings per share of commercial banks in Nigeria.

Implications of Findings

The findings of this study carry important implications for corporate governance practices within the Nigerian banking sector. The significant positive relationship between audit committee independence and earnings per share (EPS) suggests that having a higher number of independent, non-executive members on the audit committee enhances the quality of oversight, reduces managerial bias, and promotes more transparent financial reporting. This reinforces the importance of regulatory compliance with governance codes that emphasize independence on audit committees, as it directly contributes to improved financial performance. Banks and regulatory authorities such as the Central Bank of Nigeria (CBN) and the Financial Reporting Council (FRC) may consider strengthening enforcement mechanisms to ensure that audit committees are not only independent in composition but also effective in practice.

On the other hand, the finding that audit committee meeting frequency does not significantly impact EPS implies that simply increasing the number of meetings may not lead to better financial outcomes. This suggests that the quality of meetings—such as the depth of deliberations, the expertise of members, and the implementation of recommendations—may be more critical than frequency alone. For bank management and boards, this highlights the need to focus on improving the effectiveness and strategic value of audit committee engagements rather than just meeting regulatory quotas

5. CONCLUSION AND RECOMMENDATIONS

Conclusion

In conclusion, this study examined the effect of audit committee independence and meeting frequency on the earnings per share (EPS) of commercial banks in Nigeria, using data from 15 banks over a four-year period. The findings clearly show that audit committee independence plays a significant and positive role in enhancing financial performance, as measured by EPS. This means that banks with more independent audit committees tend to perform better financially, likely due to stronger oversight and governance practices. However, the frequency of audit committee meetings did not show a significant impact on EPS, suggesting that it's not how often the committee meets that matters most, but how effectively those meetings are conducted.

Recommendations

1. Commercial banks should prioritize the appointment of more independent, non-executive members to their audit committees. This will help ensure objectivity, enhance oversight functions, and promote transparency in financial reporting, which in turn can positively influence earnings performance.
2. Rather than simply increasing the number of audit committee meetings, banks should aim to improve the effectiveness of each meeting. This includes ensuring that meetings are well-structured, agenda-driven, and supported by relevant financial expertise to enable informed decision-making that can add real value to the bank's governance and financial outcomes.

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