Audit Committee Characteristics and Multidimensional Corporate Performance in Nigeria

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Abstract: - This research examined the relationship between audit committee characteristics and corporate performance. Drawing on agency theory, the study analysed secondary data from the annual accounts and reports of listed firms on the Nigerian Exchange (NGX) using the System Generalised Method of Moments (S-GMM). The research spanned 2015 to 2024, and the study sample comprised 26 listed firms with complete data. ROA, ROE, and profit margin are financial performance metrics. The non-financial metrics comprise market-based performance, proxied by Tobin's Q, while operating margin serves as the indicator of operational efficiency. With a lagged coefficient of 0.633, the dynamic results indicate that return on assets is persistent, suggesting partial adjustment over time. The audit committee independence has a significant positive effect of 10.555 on return on assets at the 5% level and on profit margin at the 10% level. Operating margin displays significant persistence (0.985), and disclosure of financial expertise (0.122) is significantly positively associated with operating margin at the 5% level. The independent audit committee has a positive effect on Tobin's Q at the 10% level. The study found that a firm's performance is strongly linked to governance factors, such as the independence of the audit committee, rather than to structural features, such as committee size, meeting frequency, or auditor size. Therefore, the characteristics of the audit committee affect both financial and non-financial metrics, supporting a multidimensional view of firm performance.

Key-Words: - Audit committee characteristics; firm performance; ROA; Tobin's Q; operating margin; Nigeria.

Received: March 9, 2026. Revised: April 5, 2026. Accepted: May 3, 2026. Published: July 14, 2026.

1 Introduction

The emphasis on assessing firm performance has grown in importance within research [1]. Taouab and Issor [2] define firm performance as the extent to which a company achieves its short- and long-term goals. Studies have examined audit features and corporate performance from different angles to identify the key factors that influence it [3], [4]. Established theoretical models, such as agency- and resource-based theories, have been used to analyse the determinants of firm performance [4]. However, a multidimensional performance model assesses a company's success from multiple perspectives. It uses financial metrics and operational efficiency indicators to capture its internal strengths. This approach highlights that performance is not solely a one-sided process [5].

The audit committee (AC) is a subcommittee of a firm's Board of Directors [6]. This important subcommittee plays a key role in overseeing the firm's financial reporting process. The AC continually assesses the effectiveness of the firm's internal control systems. It serves as a liaison function among the board, management, internal auditors, and external auditors. In a company, these functions support organisational performance, improve transparency, and promote sound corporate governance [6].

Governance codes and securities regulations in developed and emerging economies either require or recommend the establishment of AC for listed entities [7]; however, these rules differ by jurisdiction. An AC comprises independent members with relevant expertise, which helps the committee to supervise internal audits and financial reporting. The committee's active roles within a firm reduce information gaps among the board members, management, and auditors [8], [9], [10], [11].

Studies on AC traits and corporate performance commonly use specific metrics [12], [13], [10], [13]. Others examine only a limited set of AC features and

focus on specific industries. This pattern limits the extent to which their findings can be generalised [16], [93], [94]. As a result, there is limited empirical evidence on the relationship between audit committee traits and firm performance across a wider range of listed companies, especially those utilising both financial and non-financial metrics [13], [14]. Therefore, more research is needed using a comprehensive framework that analyses AC characteristics and firm performance together [12], [16]. The current work uses financial and non-financial indicators to examine the relationship between AC features and performance. The rest of the paper reviews relevant literature, explains the methodology, presents the empirical analysis, and concludes.

2 Literature Review

2.1 Theoretical Review

This work is based on agency theory and resource dependence theory. These two theories offer a strong foundation for explaining how audit committee features relate to various aspects of firm performance. Agency theory, as described by Jensen and Meckling [17], is widely used to explain the relationship between shareholders and managers. Agency problems occur when both parties prioritise their own interests, with managers acting in ways that favour themselves at the expense of shareholders' interests [9], [18]. This issue is often linked to a misalignment between the two parties. Jiang [19] stated that this misalignment results from information asymmetry, in which one party has more information than the other. Therefore, both principals and agents should focus on addressing agency problems and reducing agency costs. Panda and Leepsa [20] define agency costs as internal expenses arising from the misalignment of the agent's and the principal's interests. Researchers studying agency theory analyse the relationship between principals and agents and suggest ways to minimise agency issues and costs. Existing literature shows that audit committees play a key role in reducing agency costs [8], [21], [22] by aligning the interests of shareholders and managers [23], strengthening corporate governance [9], and impacting firm performance [24]. Audit committees help managers make better decisions based on reliable data and improve the integrity of their decision-making process [9], [25].

Resource Dependence Theory (RDT) offers useful insights into how organisations depend on external sources for vital resources that support their operations [26], [27]. This reliance influences their perceptions and decision-making [28]. Both RDT and agency theory emphasise the importance of governance. They underscore the critical role of audit committees in resource management and in working with external partners [17], [6], [29], [30], [31]. Resource Dependence Theory emphasises the significance of governance mechanisms for gaining expertise and building networks. Generally, audit committees help reduce conflicts and serve as trusted sources of external expertise [29]. This perspective demonstrates how the composition and significance of audit committees can positively influence organisational success [21], [6].

2.2 The Concept and Characteristics of the Audit Committee

Prompted by growing concerns about auditor independence and oversight of financial reporting [32], [95], the origins of audit committees date back to the initiative of the New York Stock Exchange (NYSE) (1939). Recent corporate governance literature continues to recognise these developments as foundational to the evolution of modern audit committees [100]. Later, in 1967, the American Institute of Certified Public Accountants (AICPA) recognised the role of audit committees [33]. Subsequently, audit committees were institutionalised within corporate governance frameworks in several countries, including Canada, the United Kingdom, and Nigeria 34], [35], [36].

This development shows how ACs have come to be recognised as a formal part of corporate governance in reporting systems. An AC typically comprises a group of selected board members who oversee accounting and financial reporting [37]. The effectiveness of the AC depends on its composition [38], [39]. The features considered to compose the committee interact with one another to influence the quality of governance and the credibility of financial reporting emanating from the systems they oversee [6], [8], [40], [31]. This interaction forms the basis for analysing how specific AC traits influence firm outcomes.

The size of the AC is a structural characteristic that is considered relevant to assessing its oversight effectiveness. The size of AC influences its ability to divide responsibilities and to obtain relevant expertise [6], [46]. The regulatory and governance guidelines suggest that oversight effectiveness depends on AC size. This is supported by studies suggesting that governance outcomes could at least partly be a consequence of committee structure ([6], [97], [98]. From an agency-theoretic perspective, AC size is linked to better monitoring, as larger committees increase oversight capacity. Again, from the

perspective of resource dependence theory, an AC is associated with greater access to the expertise and resources needed for effective decision-making.

Larger ACs tend to include more members with financial expertise [99]. Perhaps the reason larger ACs have been linked to improved financial performance ([6], [43]. This being so, the relationship between AC size and firm performance remains inconclusive. Thus, indicating that the effectiveness of AC size in enhancing financial performance may depend on contextual factors. Overall, the literature indicates that AC size alone does not guarantee effectiveness. Rather, AC characteristics are most effective when combined with other governance mechanisms. Consequently, AC size should be viewed as a supporting structural feature rather than a direct determinant of governance outcomes.

Independence is one of the features of an AC which describes how free its members are from undue influence at any level within the organisation. It is the responsibility of an independent AC to ensure that oversight is credible and objective [43], [46], [47], [45], [44]. When described from an agency theory perspective, independence plays a key role in reducing conflicts of interest between management and shareholders.

Studies suggest that independent directors are more likely to exercise impartial judgment and challenge managerial opportunism [48], [46]. Independence enhances the quality of monitoring by strengthening the integrity of financial reporting. It decreases the chances of earnings management and other opportunistic behaviours. Research evidence supports the above-stated view, linking greater AC independence with improved firm performance, stronger governance outcomes, and lower agency costs [49], [50].

Conceptually, independence operates alongside structural capacity ([6], [100]. While size provides the resources needed for oversight, independence determines how effectively those resources are used [48], [46]. However, the literature indicates that independence alone is insufficient to assess the AC's effectiveness. Suggesting that the effectiveness of AC relies on other committee traits and the wider governance environment [48], [46]. Overall, the literature confirms independence as a key governance tool that improves the trustworthiness of oversight [46], [43].

Prior research identifies expertise as a component of AC composition that directly contributes to effective oversight [6]. AC expertise adds a knowledge-based dimension to the effectiveness of governance. From an agency theory perspective, the literature establishes that the separation of ownership and control creates information asymmetries. Thus, creating a need that AC's expertise has filled through specialised oversight mechanisms capable of interpreting complex financial information [17], [48]. Financial expertise within ACs directly addresses this challenge. Financial expertise enhances members' ability to evaluate accounting judgements, scrutinise financial reports, and detect potential managerial opportunism [6], [101].

The benefits of the AC's size and independence depend on the committee's capacity to make informed, technically sound decisions ([6], [102]. In this sense, expertise strengthens the effectiveness of other governance attributes.

Extant works underscore the importance of expertise for improving oversight quality [6], [101], [43]. Early studies indicate that ACs with greater financial expertise are more effective at ensuring the reliability of financial reporting and audit processes [6]. Topical studies align with prior research indicating that financial expertise is associated with internal control systems and financial reporting [56], [40]. However, its influence extends beyond being a standalone characteristic. This further reinforces the need for a broader governance mechanism [6], [102]. Overall, AC expertise mitigates information asymmetry and enhances the quality of oversight decisions [17], [48], [101]. Therefore, it is conceptualised as an essential capability that supports the effectiveness of monitoring.

AC meetings serve as formal governance platforms for reviewing reports supporting ongoing monitoring [57]. The frequency of the meetings indicates the level of oversight and operational involvement [59], [43], [6]. While size, independence, and expertise determine the quality and capacity of oversight, how often meetings occur influences the actual implementation of other AC qualities in practice [6], [100], [43]. Regular meetings improve ongoing communication with management and external auditors, enabling more timely assessment of financial reporting issues and audit results [59]. Agency theory suggests that holding more frequent meetings improves oversight [17], [48]. This helps reduce the information gap and limits managerial opportunism.

Empirical evidence shows that holding meetings more frequently is associated with better oversight outcomes. Frequent meetings provide opportunities to detect financial irregularities earlier and respond more quickly [60]. Conversely, some studies document that meeting frequency does not ensure effectiveness [100], [59], [6]. These studies argue that the effectiveness of AC meetings depends on the quality of deliberations and the overall governance

environment [100], [59], [6]. Overall, the frequency of AC meetings functions as a behavioural mechanism that triggers and strengthens other governance attributes [100], [6], [59].

Overall, the frequency of meetings serves as a monitoring tool that can enhance the effectiveness of other aspects of oversight processes (DeZoort et al., 2002; Vafeas, 2000). While the evidence from studies is varied and context-dependent, earlier research indicates that AC features are linked to a firm's performance and the quality of its financial reporting (Al-Ahdal & Hashim, 2021). When we talk about firm performance, it is usually measured using both financial and non-financial indicators. Financial metrics primarily reflect a company's profitability and efficiency, whereas non-financial metrics provide insight into other important areas such as innovation, operational success, and customer satisfaction (Venkatraman & Ramanujam, 1986; Richard et al., 2009).

Relying solely on financial metrics to assess financial performance provides an incomplete view of organisational success [65], [67]. Therefore, non-financial factors, such as innovation and operational effectiveness, which also play a critical role in explaining organisational performance, ought to be considered [68]. This underscores the importance of adopting a multidimensional framework to examine the governance–performance relationship [62]. A multidimensional approach that integrates financial metrics with non-financial indicators is considered a better approach to measure financial performance [62], [103].

A firm's financial performance is assessed using accounting-based metrics [93]. By contrast, the market-based performance can be evaluated using measures such as Tobin's Q [93]. Operational performance can be assessed using indicators of productivity, process efficiency, and organisational effectiveness [104]. Using both financial and non-financial metrics provides a comprehensive view of organisational performance. A multidimensional framework is well-suited to examining corporate governance and analysing how mechanisms such as audit committees influence accounting metrics, market performance, and operational efficiency [62], [69], [9].

In the literature, the use of accounting-based, market-based, and operational performance measures aligns with the audit committee literature, which suggests that governance effectiveness arises from the interaction of multiple governance mechanisms rather than from isolated factors [93], [62], [103]. A multidimensional approach that combines non-financial and financial results with lagged accounting data offers a more accurate view of both the current level of organisational efficiency and its future potential [69], [62].

2.3 Audit Committee and Performance

Audit committee mechanism was established to enhance the board's ability to supervise financial reporting and audits [48], [57]. AC is a vital component of corporate governance, with a primary role in overseeing and guiding the organisation. Based on agency theory, ACs aim to minimise the principal-agent problem and information asymmetry between managers and shareholders through improved oversight and monitoring [17], [48].

Previous research highlights that ACs enhance the quality of financial reporting [38], [46]. For instance, Klein [46] found that more independent ACs tend to reduce earnings management, emphasising their important monitoring function. Similarly, Abbott et al. [43] found that strong ACs are associated with fewer financial misstatements and better overall oversight. Evidence also shows that an independent, financially knowledgeable AC can boost a company's value and market performance, as measured by Tobin's Q [79]. Overall, the research indicates that effective ACs improve governance quality and can positively impact a company's performance.

Research also extends beyond traditional financial and market indicators to include operational and efficiency-related performance metrics. These additional metrics cover internal control quality, cost efficiency, and productivity measures. Such metrics are expected to help explain how AC influence a company's performance.

Previous research indicates that having strong audit committees can boost governance quality [46], [38], [72]. However, operational performance remains relatively underexplored in audit committee research compared with accounting- and market-based performance measures [61], [62], [72]. Consequently, the dominant reliance on short-term accounting indicators in many studies may partly explain the inconsistent findings reported on the relationship between AC characteristics and firm performance. Overall, empirical evidence on AC features and firm performance remains mixed and inconclusive [72], suggesting that the relationship continues to attract scholarly debate.

2.4 Research Gap

Previous studies suggest that audit committee features can affect a company's performance, but the results have been mixed and not entirely clear [72]. Most research has focused on accounting-based financial data, whereas there has been less attention to market

and operational performance in assessing how effective audit committees are [62], [103]. Because of this, there is only a limited understanding of how audit committee traits relate to different aspects of a company's performance. This study addresses the identified gap by examining how specific audit committee features influence both financial results and other non-financial aspects of a company's success.

The following null hypotheses were formulated to drive the study:

$H0_1$: Audit committee characteristics do not have a significant effect on corporate financial metrics.

$H0_2$: Audit committee characteristics do not have a significant effect on corporate non-financial metrics

3 Methods

The study adopted a quantitative research design. Secondary data were obtained from the annual accounts and reports of listed firms and from the NGX website. A dynamic panel data model was used to address potential endogeneity and to evaluate the effect of AC characteristics on firm performance, measured by profitability, market value, and operational efficiency. The population included all publicly listed companies on the Nigerian Exchange Group (NGX). Due to data availability, the sample for this study was reduced to 26 companies, spanning the agriculture, manufacturing, and service sectors. The study spans ten years, from 2015 to 2024.

3.1 Theoretical Framework

As its theoretical framework, the study adopted the agency theory, which posits that effective audit committee characteristics enhance monitoring efficiency, thereby improving firm performance. This study examined the effect of audit committee size, independence, financial expertise and meeting frequency on corporate performance measures. Based on the agency theory, the AC characteristics coefficients (β_j) are expected to have a positive (+) impact on firm performance. The expected signs of the coefficients are specified as:

$\beta_j \succ 0$ implying that AC characteristics improve corporate performance.

Based on the a priori expectations, the following testable hypotheses were specified:

$H_0 : \beta_j = 0$: There is no significant effect of AC characteristics on corporate performance metrics

$H_1 : \beta_j \neq 0$: There is a significant effect of AC characteristics on corporate performance metrics.

3.2 Model Specification

This study specified the baseline model to examine how AC characteristics influence various indicators of corporate performance. The model is specified as follows:

$$Y_{it} = \beta_0 + \beta_1 Y_{it-1} + \sum_{k=2}^{n} \beta_k X_{kit} + \mu_i + \varepsilon_{it} \qquad (1)$$

Y_{it} represents corporate performance measures.

X_{kit} includes AC characteristics and control variables.

μ_i captures unobserved firm-specific effects.

ε_{it} is the error term.

However, the model in equation (1) faces three major econometric challenges. First, endogeneity arising from the inclusion of the lagged dependent variable; second, simultaneity between audit committee characteristics and firm performance; and third, unobserved firm-specific heterogeneity.

To address these issues, the study employs the System Generalised Method of Moments (S-GMM). This estimation technique uses internal instruments based on lagged values of the variables [90], [91]. Identification is achieved through orthogonality conditions between lagged variables and the error term, as specified as:

$E\left[Z'_i \mu_i \right] = 0$ where Z_i denotes the instrument matrix and μ_i the error term.

3.3 Estimation Technique

Following Arellano and Bover [90] and Blundell and Bond [91], the study employed S-GMM for estimation. This approach is effective for analysing dynamic panel data because it addresses endogeneity and potential correlations among variables.

While Arellano and Bond [89] proposed the Difference GMM estimator, Arellano and Bover [90] and Blundell and Bond [91] developed the S-GMM estimator, which improves the model efficiency by combining equations in differences and levels, making it particularly suitable for capturing dynamic relationships in panel datasets with potential endogeneity. The first-differenced equations eliminate the fixed effect through first differencing as specified below:

$$\Delta CPM_{it} = \beta_0 + \beta_1 \Delta CPM_{it-1} + \sum_{k=2}^{n} \beta_k X_{kit} + \mu_i + \varepsilon_{it} \qquad (2)$$

The moment conditions for the differenced equation hold under the assumption of no serial correlation, ε_{it} specified as:

$$E\left[CPM_{i,t-s} . \Delta \varepsilon_{it} \right] = 0, s \geq 2$$

However, to improve efficiency and as a robustness check in addressing endogeneity concerns, the System GMM estimator augments the differenced equation with the level equation as specified in equation (3):

$$CPM_{it} = \beta_0 + \beta_1 CPM_{it-1} + \sum_{k=2}^{n} \beta_k X_{kit} + \mu_i + \varepsilon_{it} \quad (3)$$

The moment conditions for the level equation under the mean stationarity assumption are:

$E\left[\Delta CPM_{i,t-s}.(\mu_i + \varepsilon_{it})\right] = 0$ and

$E\left[\Delta X_{i,t-s}.(\mu_i + \varepsilon_{it})\right] = 0$

These moment conditions form the basis for constructing the S-GMM estimator; thus, the empirical model for this study is specified as:

$$CPM_{it} = \alpha + \beta_1 CPM_{it-1} + \beta_2 AUS_{it} + \beta_3 NDA_{it} + \beta_4 FED_{it} + \beta_5 ADM_{it} + \beta_6 BDS_{it} + \beta_7 FMS_{it} + \beta_8 AGD_{it} + \beta_9 SRD_{it} + \varepsilon_{it} \quad (4)$$

Where:

β_0: Intercept

β_1–β_9: Coefficients for audit committee characteristics

CPM_{it}: Corporate Performance Measures (Dependent Variables)

CPM_{it-1}: Lagged Value of the Dependent Variable

AUS_{it}: Audit Committee Size

NDA_{it}: Audit Committee Independence

FED_{it}: Audit Committee Financial Expertise

ADM_{it}: Audit Committee Meeting Frequency

FMS_{it}: Firm Size (control)

BDS_{it}: Board Size (control)

Sectoral Dummy variables include:

AGD_{it} – Firms in the Agricultural Sector

SRD_{it} – Firms in the Service Sector

ϵ_{it}: Error term

The dependent variables for the study (corporate performance measures) comprise accounting-based and market-based indicators [73], [74]. Financial measures include Return on Assets (ROA), Return on Equity (ROE), and Profit Margin (PRM) [75], [74]. ROA is calculated by dividing net income by total assets [75], [76]; ROE is calculated by dividing net income by shareholders' equity; and PRM is calculated by dividing net income by total revenue [74], [73]. Non-financial indicators include Market Value, which is evaluated using Tobin's Q. The market value of equity plus debt divided by the book value of assets gives an estimated value of the Tobin's Q and operating margin/efficiency (OPM), described as operating income divided by total revenue [77], [78], [73].

Audit committee characteristics are the key independent variables. The number of committee members determines Audit Committee Size (AUS) [79], [80]. The proportion of independent directors is used to measure Audit Committee Independence (NDA) [79], [81]. The proportion of members with accounting or financial qualifications is used to quantify Financial Expertise (FED) [41], [82]. Meeting Frequency (ADM) refers to the number of annual meetings of the audit committee [83], [84]. Control variables include firm size and board size. The natural logarithm of total assets indicates firm size (FMS) [85], [86], whereas the total number of board members reflects board size (BDS) [86], [87].

3.4 Diagnostic Tests

To evaluate the serial correlation in the residuals, the Arellano-Bond test was carried out:

$H_0 : E\left[\Delta\varepsilon_{it}.\Delta\varepsilon_{i,t-2}\right] = 0$.

For the model validity, AR (1) is expected to be significant, and AR (2) is expected to be insignificant.

For the instrument validity, the study performed the following tests:

Sagan Test: $J = \varepsilon' Z (Z' \Omega Z)^{-1} Z' \varepsilon$

Hansen Test: For heteroskedasticity under the assumption that instruments are exogenous.

Difference-in-Hansen Test: To assess the validity of subsets of instruments.

4 Results and Discussion of Findings

4.1 Correlation Analysis

The association among the variables was examined using correlation analysis. As shown in Table 1, all pairwise correlations are positive, indicating that, in this sample, higher governance or size metrics are associated with higher values of the other variables and ROA. Return on assets correlates more strongly with board size and audit independence than with meeting frequency or disclosure of expertise. Thus, the results indicate that the correlation between the variables of interest ranges from weak to moderate, with implications for regression modelling in the absence of multicollinearity.

Table 1. Correlation Matrix

Variables	ROA	AUS	NDA	FED	ADM	BDS	FMS
ROA	1.0000						

AUS	0.2697	1.0000					
NDA	0.2808	0.7157	1.0000				
FED	0.1071	0.1995	0.2828	1.0000			
ADM	0.1524	0.3987	0.5156	0.2208	1.0000		
BDS	0.339	0.254	0.3652	0.2126	0.179	1.0000	
FMS	0.2312	0.1178	0.2797	0.4291	0.1866	0.5836	1.0000

Source: Authors

4.2 Effects of Audit Committee Characteristics on Financial Measures

Regarding the lagged dependent variable ROA, Table 2 shows a coefficient of 0.633 (ROA (-1)), indicating that approximately 66.6% of the previous period's ROA influences the current one; thus, profitability transfers between periods are high. These findings support the idea that firms' asset returns tend to remain stable over time. Concerning AC characteristics, the number of non-director auditors, which relates to management and board independence, has a coefficient of 10.555 and positively impacts ROA.

This indicates that each additional non-director auditor is linked to higher ROA, and the relationship is statistically significant. This supports the idea that greater independence in the audit process improves oversight, reduces agency issues, and enhances the efficiency of resources and assets. Furthermore, agricultural companies (with a coefficient of 4.502) tend to have higher ROA than manufacturing firms.

The ROE model in Table 2 shows that the coefficient for financial experts (-47.321) is negative and only weakly significant at the 10% level, implying a slight negative association between the number of disclosed financial experts and ROE. This unexpected finding might reflect reverse causality or signalling, with firms with lower equity performance hiring or disclosing more financial experts to overcome difficulties or reassure stakeholders. The coefficient of the firm size (41.561) is positive and statistically significant. The study's findings indicate that large firms tend to have higher ROE. This may be due to operating leverage or more effective financial arrangements. The outcome of the study aligns with prior studies [74]. In contrast, the coefficient for lagged ROE (0.003) is not statistically significant, implying that past ROE does not strongly predict current equity returns.

Table 2. Audit Committee Characteristics and Financial Measures

	Financial Measures		
Variables	Return on Assets (ROA)	Return on Equity (ROE)	Profit Margin (PRM)
ROA (-1)	0.633***(0.065)	-	-
ROE (-1)	-	0.003(0.006)	-
PRM (-1)	-	-	0.218(0.209)
Auditors size	1.011(1.020)	-38.612(47.527)	-8.271(6.428)
Number of Non-Director Auditors	10.555***(3.845)	207.267(127.188)	294.00*(152.480)
Number of Financial Expertise Disclosed	-0.209(0.463)	-47.321*(25.728)	2.443(4.423)
Number of Auditors Meeting	-0.079(0.492)	-0.260(8.301)	-9.773(5.618)
Board Size	0.377(0.271)	-5.073(4.615)	6.971(4.324)
Firm Size	-0.065(0.619)	41.561**(21.203)	-11.254(11.264)
Firms in the Agric. Sector	4.502**(1.895)	48.780(35.573)	2.882(19.571)
Firms in the Service Sector	0.914(1.171)	31.105(32.764)	-1.319(7.226)
Constant	-40.221***(25.547)	-628.484**(245.417)	-781.796*(441.986)
Observation	234	234	234
F statistic	729.44***	23.89***	10653.99***
AR (1)	-2.77***	-1.21	-1.36
AR (2)	0.24	0.94	0.35
Sargan statistic	235.89***	283.11***	218.24***
Hansen statistic	19.06	20.33	24.49

Note:
*** indicate statistical significance at 1%,
** indicate statistical significance at 5%, and
* indicate statistical significance at 10%.
Firms operating in the manufacturing sector are the reference point.

Source: Authors

The profit margin model in Table 2 also shows no significant persistence, unlike the ROA model, indicating that current profit margin performance is not linked to prior periods. The coefficient for the number of non-director auditors is high and significant at the 10% level. The results indicate that other audit variables - auditor size, the number of financial expertise disclosures, and the number of auditors meeting - are not significant. Therefore, auditors' independence positively affects profit margins, although its effect is smaller than that of audit committee characteristics such as size, meeting frequency, or the disclosure of expertise.

NDA records a positive and significant association with ROA (5%). However, it shows a weak relationship with PRM at the 10% significance level. The study's outcome aligns with agency theory, which holds that independent auditors mitigate opportunistic behaviour and improve performance. However, other audit characteristics, such as auditor size, financial expertise, number of audit meetings, and board size, are not significant across performance indicators. This indicates that adding independent auditors, rather than merely increasing board or firm size, audit team size, meeting frequency, or financial expertise disclosure, is associated with higher profitability. Additionally, the findings suggest that ROA from the previous period persists into the current period. In contrast, ROE and PRM from the prior period show no persistence into the current period. Table 2 provides evidence of a first-order autoregressive (AR (1)) process in the ROA model, but such a process was rejected for the ROE and PRM models. For the second order, there is no evidence of serial correlation (AR(2)) across all financial measures. Overall, the Sargan statistics suggest potential instrument proliferation, whereas the Hansen statistics are appropriate for all financial measures.

4.3 Effects of Audit Committee Characteristics on Non-Financial Measures

Table 3. reveals that the lagged dependent variable, Tobin's Q (0.029), is very small and not statistically significant at the 5% level. The lack of persistence aligns with the observed variability in Tobin's Q across different markets. Non-director auditors have a statistically significant positive impact at the 10% level. This implies that greater independence of the audit committee may strengthen investor confidence and reduce information risk. The results further suggest that agricultural firms generally have lower market values than manufacturing firms. Limited growth prospects and higher sensitivity to commodity price fluctuations and climate-related risks could be part of the reasons

Table 3. Audit Committee Characteristics and Non-Financial Measures

	Market Value Model	**Operational Efficiency Model**
Variables	**Tobin's Q (TBQ)**	**Operating Margin (OPM)**
TBQ (-1)	0.029(0.102)	-
OPM (-1)	-	0.985***(0.055)
Auditors size	-2.609(3.216)	-0.035(0.095)
Number of Non-Director Auditors	24.931*(12.748)	0.596(0.519)
Number of Financial Expertise Disclosed	-1.777(1.742)	0.122**(0.060)
Number of Auditors Meeting	0.295(1.055)	0.007(0.056)
Board Size	-0.644(0.655)	-0.070(0.051)
Firm Size	2.369(2.390)	0.356(0.237)
Firms in the Agric. Sector	-7.159*(3.914)	0.244(0.178)
Firms in the Service Sector	0.579(4.901)	0.456*(0.273)
Constant	-59.136(30.427)	-3.957**(1.915)
Observation	234	234
F statistic	11.11	6879.73***
AR (1)	-2.14**	-1.79*
AR (2)	-0.35	1.08
Sargan statistic	257.27	183.94***
Hansen statistic	14.00	23.22*

Note:
*** indicate statistical significance at 1%,
** indicate statistical significance at 5%, and
* indicate statistical significance at 10%.
Firms operating in the manufacturing sector are the reference point.

Source: Authors.

Table 3. further shows that the operating margin (0.985) is highly persistent at the 5% significance level, indicating that a large proportion of current-period operating efficiency reflects past performance. FED is positively associated (0.122) with the

operating margin at the 5% significance level. This suggests that having financial expertise within the audit team is associated with incremental improvements in operational discipline, such as better budgeting, cost control, and risk assessment, which lead to slightly higher margins

Additionally, firms in the service sector, with a significant coefficient of (0.456), tend to have slightly higher operating margins than those in the manufacturing sector, other factors being equal.

The presence of independent auditors significantly enhances a company's market value, outweighing factors such as meeting frequency, staff size, or visible activities. Financial expertise is positively associated with operating margin, as supported by the literature [41], suggesting that financial expertise improves operational efficiency. The AR(1) serial correlation was rejected only in the OPM model, whereas AR(2) proved insignificant in both models, thereby validating the absence of second-order serial correlation, which is essential for the instruments' validity. The Sargan test does not reject the null hypothesis of operational efficiency in the model. Thus, the outcome of the study aligns with prior studies in that direction [70]. Overall, the Hansen J statistic is suitable for all models, providing evidence of overidentifying restrictions [88], [89].

5 Conclusion

This study examined how audit committee characteristics relate to corporate performance. Corporate performance was assessed using both financial and non-financial metrics. The results indicate that good governance matters, although its impact varies across performance measures. Return on assets is consistently strong, whereas return on equity and profit margin tend to fluctuate more. The number of non-director auditors is a key, economically significant factor that reliably influences performance. An independent audit committee have a positive effect, increasing returns. Tobin's Q can fluctuate, but the presence of an independent audit committee often increases a company's market value. The operating margin tends to stay relatively stable, and financial expertise is associated with improved operating margins.

These findings emphasise the importance of good governance and expertise in enhancing a company's performance. The study contributes to the literature by asserting that governance factors, such as the independence of the audit committee and expertise, rather than structural characteristics, such as committee size, meeting frequency, or auditor size, influenced both financial and non-financial firm performance measures. The study has limitations that could be addressed by examining additional governance factors and a broader range of non-financial outcomes over a longer period.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

The author contributed in the present research, at all stages from the formulation of the problem to the final findings and solution.

Sources of Funding for Research Presented in a Scientific Article or Scientific Article Itself

No funding was received for conducting this study.

Conflict of Interest

The authors claim that the manuscript is completely original. The authors also declare no.