v. 4, n. 3, 2024

Scientific
Journal of
Applied
Social and
Clinical
Science

INFLUENCE OF THE AUDIT COMMITTEE SIZE AND GENDER DIVERSITY ON FINANCIAL PERFORMANCE AND AUDITOR OPINION

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Abstract: Audit committees are essential in corporate governance, influencing the quality of financial reporting and audits. Therefore, this research aims to assess the influence of audit committee characteristics, namely size and gender diversity, on financial performance and auditor opinion. Thus, a content analysis was carried out on the annual reports of companies listed on Euronext Lisbon in 2018 and 2019. The data obtained reveal that audit committee size and gender diversity influence financial performance but not auditor opinion. This research contributes to the literature, given the numerous contradictory studies on this topic. In addition, it contributes to audit professional organizations and the economic market, evidencing the most impactful characteristics of audit committees and guiding them in their decision-making in the future.
Keywords: Audit committees, Audit, Financial performance, Auditor opinion.

INTRODUCTION

AUDIT COMMITTEE SIZE

According to Gray et al. (2015), the audit committee should comprise at least three members (two for smaller companies), and at least one member should have recent and relevant financial experience.

According to Reyes and Junior (2018) and Qader et al. (2023), the audit committee size positively influences the quality of financial reporting. Li et al. (2012) and Hamdan (2020) concluded in their studies that the audit committee size is associated with less earnings management.

Additionally, the studies by Sukma and Bernawati (2019), Andayani and Daud (2020), and Assad (2023) concluded that the audit committee size significantly influences the quality of the audit. Therefore, the audit committee size is expected to be correlated with the auditor's opinion, as Carcello and Neal (2000) and Alkilani et al. (2019) found. However, Teixeira (2016) found no relationship between the audit committee size and the auditor's opinion.

Regarding financial performance, the studies conducted by Zábojníková (2016) in the United Kingdom, Kipkoech and Rono (2016) in Kenya, Issaa and siam (2020) and Alqatamin (2018) in Jordan, and ElHawary (2021) in Egypt, revealed a significant relationship between the audit committee size and financial performance. The study by Al-Jalahma (2022) also confirmed the correlation between the variables of the audit committee size and financial performance, but in a negative direction, showing that companies with more prominent audit committees have worse financial performance. However, the studies by Borges et al. (2020) and Meah et al. (2021) found no relationship between the audit committee size and the financial performance of companies. Based on the above, were formulated the following hypotheses:

- Hypothesis 1.1. The audit committee size influences financial performance.
- Hypothesis 1.2. The audit committee size influences the auditor's opinion.

AUDIT COMMITTEE GENDER DIVERSITY

According to Ud Din et al. (2021), the presence of women on audit committees improves the quality of financial information, as well as corporate governance mechanisms and internal control systems, namely control environment, control activities, and information and communication. Corroborating this idea, Alkebsee et al. (2022) state that audit committee gender diversity improves the supervision of financial reports, communication between auditors and management, and audit efficiency. Similarly, Akpotor et al. (2019) found a significant relationship between gender diversity and audit quality. The results are consistent with the literature on gender diversity, which suggests that women perform better supervision, are more conservative, and make more ethical decisions (Oradi & Izadi, 2020).

Velte (2018) also demonstrates the influence of gender diversity on the audit report, as shown in his study conducted in the United Kingdom, where companies with more women on their audit committees have an easier time with crucial audit matters.

Therefore, it appears that the presence of women will also influence financial performance, as found in the research by Low et al. (2015), Alqatamin (2018), Chijoke-Mgbame et al. (2020), and Meah et al. (2021). However, the study conducted by ElHawary (2021) and Habash and Abuzarour (2022) did not provide evidence. Therefore, were formulated the following hypotheses:- Hypothesis 2.1. The number of women on the audit committee influences financial performance.

- Hypothesis 2.2. The number of women on the audit committee influences the auditor's opinion.

METHOD

The adopted methodology was a content analysis of the annual reports and accounts of companies listed on Euronext Lisbon in 2018 and 2019. The listing of listed companies was obtained, totalling 51 listed companies, and one company was excluded due to the need for more necessary information for data analysis. This resulted in a sample of 50 companies yearly, totalling 100 Annual Reports and Accounts.

The Annual Reports and Accounts were collected from the websites of the Portuguese Securities Market Commission (CMVM), the Bank of Portugal, and the respective company websites.

After collection, the data were thoroughly analyzed using the statistical software SPSS. The level of statistical significance adopted was 5% ($\alpha = 0.05$). The comparison between two independent groups in the quantitative variables was performed using the independent samples t-test. The relationship between two dichotomous variables in paired samples (2018 vs 2019) was analyzed using the McNemar test. The analysis of the relationship between a quantitative variable (X) and a discrete nominal dichotomous variable (Y) was performed using the point biserial correlation coefficient (Rpb), ensuring the validity of the findings.

FINDINGS

The sample consists of 50 companies listed on Euronext Lisbon in 2018 and 2019.

The first variable presented is the size of audit committees. Audit committees are predominantly composed of 4 members, as Gray et al. (2015) predicted, with 3 effective members and 1 alternate, representing 54% of the sample in 2018 and 62% in 2019.

The audit committees are predominantly composed of men. There are situations where audit committees are exclusively composed of men since data shows that 10% of companies had only 1 man on the audit committee in 2018 and 2019, and others have only 4 men on the audit committee (26% in 2018 and 14% in 2019).

An aggregated analysis found that in 2018, audit committees were composed of 214 members, of which 70 were women, representing 32.7%. In 2019, the number of audit committee members increased to 221, with 83 female members, meaning that 37.6% of audit committees are composed of women, indicating a trend of growth in female presence in audit committees, which is expected to continue evolving.

As for the entity's financial performance, it was found that most companies had a positive financial performance, representing 76% and 78% of the sample in 2018 and 2019, respectively. This indicates a slight decrease in entities with a negative financial performance in 2019.

The last variable presented is the auditor's opinion. The auditor's opinion was grouped into two classes: modified opinion and unmodified opinion, assuming, as stated in the International Standard on Auditing 705, that the modified opinion includes qualified opinions, disclaimers of opinion, and adverse opinions, while the remaining opinions are contained in the unmodified opinion. There were more unmodified opinions in the two years analyzed (82% in 2018 and 86% in 2019), which would be expected since these are listed companies. It is also worth noting that this fact indicates a decrease in the number of reports with modified opinions in 2019 compared to 2018.

DISCUSSION

Table 1 shows the results of the correlation between the audit committee size and the financial performance, as well as the auditor's opinion, as predicted in hypotheses 1.1 and 1.2.

	2018		2019	
Correlation	*r*	*p*	*r*	*p*
Audit committee size vs. financial performance	0.35	0.014	0.21	0.143
Audit committee size vs. auditor's opinion	-0.05	0.748	0.08	0.601

Table 1 - Test of hypotheses 1.1 and 1.2.

The data analysis indicates a significant correlation between audit committee size and financial performance (2018: r=0.35, p=0.014; 2019: r=0.21, p=0.143), suggesting that companies with larger audit committees tend to have better financial results. These results confirm research hypothesis 2.1, which predicts that the audit committee size influences financial performance. Such a result was also found in the investigations of Kipkoech and Rono (2016), Zábojníková (2016), Alqatamin (2018), Issaa and Siam (2020), and ElHawary (2021).

Contrary to this, and as Teixeira (2016) also found, there is no significant correlation between audit committee size and the auditor's opinion (2018: r=-0.05, p=0.748; 2019: r=0.08, p=0.601), suggesting that the audit committee size does not influence the auditor's opinion this refutes research hypothesis 1.2.

Table 2 shows the results of statistical tests performed to test hypotheses 2.1 and 2.2, which relate the number of women on the audit committee to the financial performance and subsequently to the auditor's opinion.

	2018		2019	
Correlation	*r*	*p*	*r*	*p*
Number of women on the audit committee vs. financial performance	0.37	0.009	0.11	0.454
Number of women on the audit committee vs. auditor's opinion	-0.01	0.967	-0.17	0.235

Table 2 - Test of hypotheses 2.1 and 2.2.

According to Table 2, in 2018, the correlation (r) between the number of women on the audit committee and financial performance was 0.37, and the p-value (which indicates the statistical significance of the correlation) was 0.009. This suggests a moderate and significant correlation between these variables in that year, confirming hypothesis 2.1 and corroborating with Low et al. (2015), Alqatamin (2018), Chijoke-Mgbame et al. (2020), and Meah et al. (2021). However, in 2019, the correlation decreased significantly (r=0.11), and the p-value was 0.454, indicating a weak and non-significant correlation between the two variables that year.

In turn, the correlation between the

number of women on the audit committee and the auditor's opinion is negative, indicating that an increase in women is associated with a modified opinion. This result can be explained by the fact that women perform better under supervision, are more conservative, and make more ethical decisions, as stated by Oradi and Izad (2020). However, in both years, the correlation is insignificant since the p-values were more significant than 0.05 (0.967 in 2018 and 0.235 in 2019), leading us to reject hypothesis 2.2 and conclude that the number of women on the audit committee does not influence the auditor's opinion.

CONCLUSION

This research aims to assess the influence of some characteristics of audit committees (size and gender diversity) on financial performance and the auditor's opinion. To this end, a content analysis was conducted on 100 annual reports and accounts of 50 companies listed on Euronext Lisbon in 2018 and 2019. After collecting the data, they were statistically processed, revealing that the members of audit committees are primarily men, with some audit committees composed only of men, which is not the case with women. However, the number of women on audit committees grew from 2018 to 2019.

The data also showed that the financial performance of the analyzed companies is predominantly positive, and the auditor's opinions are unmodified, which would be expected since these are listed companies under the scrutiny of the Portuguese Securities Market Commission (CMVM).

Our study reveals that audit committee characteristics, precisely size and gender diversity, have a tangible impact on financial performance. This underscores the critical role of these committees in corporate governance and should prompt careful consideration from company management. It also signals to audit and government agencies the need for legislation that optimizes audit committee composition, focusing on these influential characteristics. However, these factors do not appear to sway the auditor's opinion.

One limitation of this study is the temporal period, as it only covers two consecutive years, which may not show a significant difference between the studied variables. Therefore, it is suggested that the analysis period be expanded for future studies, even checking the consequences of the pandemic and war periods on the studied variables. It would also be interesting to conduct interviews with the audit committees and the management body to more thoroughly understand the characteristics and functioning of the audit committees, as well as the reason for the selection of their members.

This research offers valuable insights into the workings of audit committees and their influence on financial performance and auditors' opinions, which are vital for government agencies, auditing professionals, and company managers. Our findings can guide improvements in companies, particularly those lacking gender diversity or exhibiting negative financial performance or modified auditor opinions. Given the numerous contradictory studies on this topic, this study also enriches the existing literature.

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