

**EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON THE
FINANCIAL REPORTING QUALITY OF QUOTED CONGLOMERATE
COMPANIES IN NIGERIA**

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**A PROJECT CARRIED OUT IN THE DEPARTMENT OF ACCOUNTING,
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REQUIREMENTS FOR THE AWARD OF A BACHELOR OF SCIENCE
(B.SC.) DEGREE IN ACCOUNTING**

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DECLARATION

I HEREBY DECLARE THAT:

1. The study was undertaken by Victor Oghenewede OYIBOCHA in the Department of Accounting, University of Benin, under the supervision of Prof. A. S. Omoye of the Department of Accounting, Faculty of Management Science, University of Benin.
2. To the best of my knowledge, the study is original and has not been submitted for the award of a Degree elsewhere.
3. All ideas and views are product of my personal research and where the views of others have been expressed, they have been duly acknowledged.
4. I shall totally and fully be responsible for any liability that may flow from the study, if any.

.....
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.....
DATE

CERTIFICATION

This is to certify that this project was carried out by **Victor Oghenewede OYIBOCHA** with Mat. No. **MGS1510532** to the Department of Accounting, University of Benin, Benin City and approved as adequate in scope and quality for the partial fulfillment of the requirements of the award of Bachelor of Science (BSc.) Degree in Accounting.

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DEDICATION

This entire project report is dedicated to God the Almighty for his abundant love and guidance and for making this possible.

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ABSTRACT

The study was designed to investigate the relationship between audit committee characteristics and financial reporting quality of listed conglomerate companies in Nigeria. Five objectives guided the study. The population comprised of six listed conglomerate companies on the floor of Nigeria stock exchange. The entire population of six (6) listed conglomerate firms were selected as the sample size of the study. Secondary Data was collected from annual reports and accounts of the listed conglomerate companies. The statistical tool used in the study was a descriptive statistic, correlation analysis and Panel Least Square Regression with the aid of SPSS 20. The study found that; audit committee meetings have a significant effect on the financial reporting quality of listed conglomerate companies, while audit committee independence has no significant effect. Audit committee financial expertise was also found to have a significant impact on the financial reporting quality of listed conglomerate companies. The study recommends that; management of conglomerate companies should strive to maintain or increase the frequency of audit committee meetings. The study found that frequent meetings have a significant positive impact on the financial reporting quality of listed conglomerate companies. This will provide audit committee members with more opportunities to scrutinize financial reports and improve their quality.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

According to Adekoya, Olugbodi, and Ogungbade (2021), audit committees serve as important corporate governance instruments for monitoring the financial activities of businesses and checking the accuracy of financial statements. However, due to financial scandals that have affected listed Nigerian companies, audit committees in Nigeria are not perceived as having enough capacity. Eskandai, Rasid, Basiruddin, and Hosseini (2014) claim that such scandals have caused stakeholders to lose money and lose faith in corporate financial reporting. This has led to calls for reform of corporate governance structures, with audit committees being the most crucial instrument (Baker, Aledwan, Bani, and Alkubisi, 2015).

Tjeng and Nopianti (2021) assert that the role of audit committees is important in ensuring the quality of financial reporting, which is crucial for regulatory and supervisory purposes and in the public interest. Various internal and external individuals and groups have shown an interest in the quality of audited financial information (Eskandai et al., 2014). Auditing helps reduce information asymmetry and protect stakeholders' interests by providing reasonable assurance that financial statements are free from material misstatements. Mwangi (2018) argues that auditors' societal role is crucial in reducing the risk of misstatements and ensuring compliance with regulations, which can lower the cost of capital for companies and increase confidence in capital markets.

Ojeka, Iyoha, and Asaolu (2015) suggest that audits performed according to high-quality standards can promote the implementation of accounting standards and contribute to strong corporate governance, risk management, and internal control, ultimately contributing to financial performance. Finally, statutory audits can reinforce confidence because auditors are expected to provide an external, objective opinion on financial statements' preparation and presentation (Ojeka et al., 2015).

The reliability of audited reports can be compromised when auditors fail to gather sufficient and appropriate audit evidence and identify material misstatements in financial reports. Asiriuwa, Aronmwan, Uwuigbe, and Uwuigbe (2018), Juliana and Widodo (2019), and Elewa and El-Haddad (2019) have highlighted concerns about the independence of some organizations and lack of concentration lowering audit quality. Poor audit quality has contributed to corporate collapses, often due to a lack of appropriate and sufficient audit evidence, as auditors may be restricted by management's access to certain documents during audits. To ensure the quality, reliability, and credibility of financial reports, the role of audit committees is crucial in ensuring the independence of auditors from their clients, which can be compromised through poor regulation and supervision of the auditing practice, provision of non-audit services to the client, and auditors' interest in the client's business, among others. This study aims to investigate the impact of audit committee characteristics on the quality of financial reporting of listed conglomerate companies in Nigeria.

1.2 Statement of the problem

The accuracy and reliability of financial reporting is a critical component of corporate governance and can have significant consequences for the reputation and performance of companies. In Nigeria, concerns have been raised about the effectiveness of audit committees in ensuring high-quality financial reporting, leading to calls for revisions to the regulatory framework for corporate governance (Adekoya et al., 2021). Existing provisions in Nigeria's Company and Allied Matters Act and the Code of Corporate Governance best practices have failed to address the issue of audit committee characteristics, resulting in inadequate audit committees and poor financial reporting quality (Adekoya et al., 2021). This is especially problematic in Nigeria's conglomerate sector, which presents unique challenges for audit committees due to the complexity of the business operations and financial reporting. Despite the importance of audit committee characteristics in improving financial reporting quality, there is a lack of empirical evidence on the relationship between these characteristics and financial reporting quality in Nigeria's conglomerate sector (Juliana & Widodo, 2019). Previous studies have shown that audit committee size, independence, expertise, and frequency of meetings are critical factors that can influence financial reporting quality (Abbott et al., 2016; Nabizadeh et al., 2020). However, these studies were not specific to the Nigerian context. Moreover, audit committees in Nigeria face challenges such as a lack of financial expertise, inadequate training of audit committee members, and weak regulatory oversight (Adekoya et al., 2021), which can hinder their effectiveness and impact the quality of financial reporting. Thus, this study aims to examine the

effect of audit committee characteristics on the financial reporting quality of quoted conglomerate companies in Nigeria. The findings of this study could provide insights into how audit committees can be strengthened in Nigeria's conglomerate sector to improve financial reporting quality and enhance corporate governance practices.

1.3 Objectives of the Study

The general objective of the study is to examine effect of audit committee characteristics on the financial reporting quality of quoted conglomerate companies in Nigeria. The comparability index measure of measuring financial reporting quality can be categories into comparability assets, comparability index of liabilities and comparability index of equity. The study however used comparability index of equity; this is considered sufficient to proxy financial reporting quality.

The specific objectives of the study are;

- i. To determine the effect of audit committee meetings on the comparability Index of equity of listed conglomerate companies.
- ii. To ascertain the effect of audit committee independence on the comparability Index of equity of listed conglomerate companies.
- iii. To investigate the effect of audit committee financial expertise on the comparability Index of equity of listed conglomerate companies.

1.4 Research Questions

To achieve the objective of this study, the answers to the following questions will be sought;

- i. To what extent is the effect of audit committee meetings on the comparability Index of equity of listed conglomerate companies?
- ii. To what extent is the effect of audit committee independence on the comparability Index of equity of listed conglomerate companies?
- iii. To what extent is the effect of audit committee financial expertise on the comparability Index of equity of listed conglomerate companies?

1.5 Research hypothesis

- i. Audit committee meeting has no significant effect on the comparability Index of equity of listed conglomerate companies.
- ii. Audit committee independence has no significant effect on the comparability Index of equity of listed conglomerate companies.
- iii. Audit committee financial expertise has no significant effect on the comparability Index of equity of listed conglomerate companies.

1.6 Scope of the study

The research will focus solely on the conglomerate sector of Nigeria, specifically from 2015 to 2020. The reason for this selection is that conglomerates operate in diverse business areas, which is relevant to the study's purpose of examining the impact of audit committee characteristics on financial reporting quality. The study will analyze the effect of three audit committee characteristics, which are the number of meetings held, independence, and financial expertise. The financial expertise will act as a substitute for independence. The quality of financial reporting will be measured using the Comparability Index of equity.

1.7 Justification for the Study

The ability of a company to satisfy its stakeholders and maximize the value of resources invested is crucial for its success. To ensure stakeholder satisfaction, companies need to prioritize the quality of their financial reporting. By identifying and examining key factors that affect financial reporting quality, companies can evaluate their current practices and make necessary changes to improve their audit processes. The findings of this study can be particularly useful for company directors and CEOs in determining how to allocate resources to improve financial reporting quality through organizational processes and structures.

Moreover, the study's empirical evidence can provide recommendations to stakeholders in designing effective corporate governance policies that will benefit investors, as these policies can offer valuable insights into the impact of audit committee expertise on the financial reporting quality of conglomerate companies in Nigeria

1.8 Definition of terms

Audit: A process of independent examination of financial information of any entity, irrespective of its size or legal form, to express an opinion on the financial statements.

Financial reporting: The disclosure of financial information to stakeholders about how a company is performing over time.

Conglomerate firm: A corporation that is made up of several different, sometimes unrelated businesses.

Listed companies: Companies whose stocks trade on a stock exchange and conform to listing requirements.

Audit committee: A group of members of a company's board of directors that oversees its financial statements and reporting.

Internal audit: An evaluation of a company's internal controls, including its corporate governance and accounting processes.

External audit: An audit performed by an external auditor who follows specific laws or rules to assess the financial statements of a company, government entity, other legal entity, or organization and who is independent of the entity being audited.

1.9 Organization of the study

This study was divided into five chapters. chapter one contained the background to the study, statement of the problem, objectives of the study, research questions, research hypothesis, justification for the study, scope, the operational definition of terms and plan of the study. Chapter two embodied conceptual, theoretical framework and empirical framework. Chapter three was divided into research design, the population for the study, methods of the sample, method of data collection and method of analysis and model specification. Chapter four present, interpret and analyze data. Chapter five communicated the summary, conclusions and recommendations of the study.

1.10 Limitations of the Study

As is the case with all studies, this study is associated with some limitations. The findings of this study are therefore to be considered in light of the following limitations:

The study intended to use the entire population of listed companies in Nigeria to constitute the population of the study. But due to time constraints and the unavailability of some data, the study limits its scope to only listed conglomerate companies on the Nigeria stock exchange (NSE).

The study considered only three proxies of audit committee characteristics without considering other proxies of audit committee characteristics such as audit committee share ownership and audit committee size. The result may be different if other variables were to be added.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Concept of financial reporting quality

The concept of Financial Reporting Quality (FRQ) has been defined in relation to its objectives. Nguyen et al. (2017) explain that FRQ refers to the precision with which financial reports communicate information about a firm's operations, particularly its cash flows, to inform equity investors. Similarly, Agwor and Onukogu (2018) define FRQ as the extent to which financial statements provide accurate and unbiased information regarding a company's performance and financial position. The International Accounting Standards Board (IASB) (2010) states that the primary aim of financial statements is to provide useful information for a wide range of users to make economic decisions. According to IAS1 published by the IASB (IASB, 2017), the primary objective of financial reporting is to offer information that is decision-useful. Hence, FRQ quality should be defined in terms of its usefulness in decision-making, in line with current literature and standards (Masmoudi, 2021).

The Financial Reporting Quality (FRQ) definition is not limited to financial information about a company's position, but includes additional disclosures and non-financial information that are helpful for interpreting financial reports and making informed decisions. The qualitative characteristics of FRQ aid in determining the decision usefulness of financial reporting information (IASB, 2018). Based on previous research, FRQ is defined using the fundamental and enhancing qualitative

characteristics that establish decision usefulness, as outlined in IAS1 (Bonaventure, 2019). The fundamental qualitative characteristics, which focus on relevance and faithful representation, are considered the most important because they establish the content of financial reporting information. The enhancing qualitative characteristics, which consist of understandability, comparability, verifiability, and timeliness, complement the fundamental characteristics to increase decision usefulness. However, these enhancing qualitative characteristics alone cannot establish financial reporting quality (IASB, 2018).

Relevance

According to the IASB (2018), relevance is the primary fundamental qualitative characteristic of FRQ, which refers to the capacity of financial reports to make a difference in the decisions made by users as capital providers. Relevance encompasses predictive and confirmatory value, both of which are derived from financial reports. Predictive value pertains to the usefulness of information about an economic phenomenon as an input to predictive processes used by capital providers to form their expectations about the future. It focuses on providing extensive forward-looking information to aid users in predicting the firm's future ability to generate cash flows. On the other hand, confirmatory value focuses on providing information about past transactions or events to confirm, and reduce users' information risk and change their expectations of the firm. Thus, financial reports have confirmatory value if they accompany or change past (or present) expectations based on previous evaluations (IASB, 2018).

The second fundamental qualitative characteristic of FRQ is faithful representation, which requires annual reports to be complete, neutral, and free from material error to represent economic phenomena accurately (IASB, 2018). The economic phenomena that financial reports represent include economic resources and obligations and transactions and other events and circumstances that change them (IASB, 2016). Faithful representation comprises five sub-dimensions, namely neutrality, completeness, accuracy or freedom from material error, verifiability, and corporate governance (Danjuma Bolaji, 2021).

Neutrality refers to the absence of bias, which may influence behavior or produce predetermined results (IASB, 2018). Accuracy implies the absence of material errors based on established principles of accounting and finance, and all underlying principles and assumptions must be thoroughly explained in the annual report (Jerry & Saidu, 2018; Onyabe et al., 2018). Completeness emphasizes that the information contained in the annual financial report must be comprehensive enough to support useful decision-making (ICAEW, 2011). Verifiability refers to the degree to which an independent auditor can confirm the accuracy of financial report information (Ivungu et al., 2019). An unqualified professional auditor's report increases the credibility value of financial reporting information by providing reasonable assurance of the annual report's representation of economic phenomena.

The first enhancing qualitative characteristic of Financial Reporting Quality (FRQ) is Understandability. This means that the information presented in the financial report should be clear, concise, and easy to comprehend. According to the International

Accounting Standards Board (IASB), understandability is measured using five items, which include well-organized information, notes or narrative explanations, the use of tabular or graphic formats, conciseness, and simple language (Puspitasari et al., 2019).

The second enhancing qualitative characteristic is Comparability. This refers to the quality of information that allows users to identify similarities and differences between two sets of economic phenomena (IASB, 2018). Comparability includes consistency, which means using the same accounting policies and procedures from period to period within an entity or in a single period across entities. It also includes comparability between different companies (Umobong & Ibanichuka, 2017).

The third enhancing qualitative characteristic of FRQ is Timeliness. According to IASB (2018), this means having information available to decision-makers before it loses its capacity to influence decisions. Timeliness is measured in terms of the number of days between year-end and the signature on the auditors' report after year-end. It is essential to provide information to users within a timescale suitable for their decision-making purposes (Karajeh & Ibrahim, 2017).

2.1.2 Concept of Comparability Index of Equity

Comparability index of equity is the measure of the degree to which the performance of one equity can be compared with the performance of its peers in the same industry. The concept of comparability index of equity is relatively new, and there is limited research in this area. However, several studies have investigated the effect of comparability index of equity on various financial variables, such as returns, volatility,

and risk. Several studies have investigated the effect of comparability index of equity on various financial variables such as returns, volatility, and risk. Andreu and Pons (2018) found that firms with higher comparability index of equity had lower risk and higher returns compared to firms with lower comparability index of equity. Similarly, a study by Pfeiffer and Schaefer (2018) found that firms with higher comparability index of equity were less volatile and had higher returns. Moreover, literature has also examined the role of comparability index of equity in financial decision making. For example, a study by Kim and Kross (2010) found that comparability index of equity is positively related to the precision of analysts' earnings forecasts. Another study by Hirst and Hopkins (2008) found that comparability index of equity is positively associated with the accuracy of stock price forecasts.

2.1.3 Concept of Audit Committee

The audit committee is a crucial functional body of a company that supervises financial reports and promotes transparency. Its main purpose is to enhance the quality of auditing and reduce the board of directors' questioning time during external auditors' activities (Al-Homaidi, Mohammed Al-Matari, Tabash, Khaled, & Senan, 2021). The structure of the audit committee and its governance and supervisory roles have a direct impact on the company's internal management process. Members of the audit committee should have integrity, commitment, and a clear understanding of the company's operations (Laksmi & Kamila, 2018). Maintaining accountability is critical for the audit committee, and its members also belong to the board of directors, which develops strategies to ensure the company's financial performance. The Nigerian

Companies and Allied Matters Act (CAMA) requires every public company to establish an audit committee under Sections 359(3) and (4). The audit committee monitors the company's accounting policies and procedures (Ogunmakin, Fajuyagbe & Akinleye, 2021).

2.1.4 Audit committee meeting

According to studies conducted by Abdelkarim & Zuriqi (2020), the number of meetings held by an audit committee has a significant impact on its effectiveness. To enhance the effectiveness of the committee, members should be willing to allocate more time to auditing. However, while some studies have found a positive correlation between the frequency of meetings and the quality of earnings, a study in Australia did not find evidence of such a relationship (Monday & Nancy, 2016). The number of meetings held should be determined by the company's terms of reference and the complexity of its operations.

On the other hand, the Malaysian Code on Corporate Governance (2000) recommends at least three or four meetings per year that correspond to the audit cycle and the timing of published annual reports, as well as other meetings as needed in response to emerging circumstances. Tenibiaje (2013) also found that the frequency of audit committee meetings is a significant factor affecting the quality of financial reporting. During the meetings, the committee's main functions include supervising the firm's financial reports, internal accounting control, the audit process, and risk management practices. The audit committee should meet regularly with both external and internal

auditors to review the financial statements, audit process, and internal controls of the firm (Segun, 2019).

2.1.5 Audit committee independence

To be effective, an audit committee should be independent of management. Its independence allows it to provide impartial advice to the board, which is crucial to a company's governance structure. According to Segun (2019), an independent member of the audit committee is one who is not an employee of or providing services to the company beyond their duties as a committee member. This independence ensures that management is transparent and accountable to stakeholders.

Independent audit committee members are expected to be more objective and less likely to overlook potential deficiencies in financial reporting that may involve misappropriation or manipulation. Dissanayake et al. (2018) found that this interpretation is supported by evidence regarding financial reporting misstatements.

2.1.6 Audit Committee Financial Expertise

Audit committees require financial expertise to ensure effective control, as argued by Dissanayake et al. (2018). The authors suggest that audit committee members with experience in accounting and auditing are better equipped to understand oversight tasks, particularly when it comes to internal control evaluation. They found that experienced members were more likely to make judgments similar to experts in the field than those without such experience.

As a result, the inclusion of a finance expert on the audit committee is necessary, as proposed by the US Sarbanes-Oxley Act (2002) and supported by Khaneja et al.

(2017). The act mandates public company audit committees to include at least one financial expert, defined as someone with accounting or auditing experience. To ensure optimal performance and judgment, audit committee members must possess knowledge and understanding of accounting and finance, as well as stay informed of events impacting financial reporting, as noted by Palaniappan (2019). The primary duty of the audit committee is to review the financial reporting process to ensure high-quality results.

2.2 Empirical Review

Mili and Hashim (2020) conducted a study to investigate the impact of audit committee attributes on the quality of financial reporting of selected banks in Nigeria. They analyzed audited annual reports of the selected banks from 2006 to 2013 using content analysis methodology and researcher-constructed measurement checklist. The study utilized correlation and regression analysis to test the hypotheses and found that audit committee independence, audit committee size, and the existence of written charter significantly influenced the quality of financial reporting. Similarly, Khaneja et al. (2017) assessed the effect of audit committee attributes on the financial reporting quality of Nigerian quoted companies. They used annual reports of 131 quoted Nigerian companies from 2006 to 2012 and analyzed the data using descriptive correlation and ordinary least square regression. The findings revealed that audit committee attributes, including audit committee frequency of meetings, financial literacy, independence, size, and meeting attendance had a positive and significant impact on financial reporting quality. They suggested that training and seminars

should be organized for audit committee members to strengthen the effect of financial literacy on financial reporting quality. Additionally, they recommended that the Securities and Exchange Commission should implement regulations requiring audit committee members to maintain a minimum attendance level of 85% to be retained for the following financial year.

In a study by Segun (2019) on Nigerian listed companies, the impact of audit committee characteristics on the quality of financial reporting was investigated. A multivariate regression analysis was employed, and a sample of 101 companies was used for the period of 2010-2014. The results indicated that audit committee share ownership and financial experts are positively and statistically significant, revealing that the audit committee mechanisms influence the quality of financial reporting in Nigeria. The author recommended that regulatory bodies should require all board of directors' representatives in audit committees to be non-executives and to replace financial literacy with a combination of financial and industrial expertise to further enhance the quality of financial reporting.

Palaniappan (2019) conducted a study to assess the influence of audit committees on the quality of financial reporting in Nigerian quoted companies. The study used data from annual reports of 131 companies listed on the Nigeria Stock Exchange between 2006 and 2012. Descriptive statistics and ordinary least squares (OLS) regression were employed in the data analysis. The results of the multivariate regression analysis showed that audit committee attributes, such as the frequency of meetings, financial

literacy, audit committee size, and attendance at meetings, had a positive effect on financial reporting quality.

Mili and Hashim (2020) conducted research on the relationship between audit committee attributes and financial reporting quality in Nigerian listed companies. The study used multivariate regression analysis with a sample size of 101 companies, using longitudinal panels of 505 observations of non-financial listed companies on the Nigerian Stock Exchange from 2010 to 2014. The results indicated that company age and size were statistically significant control variables. Additionally, audit committee share ownership and financial expertise were both positively and significantly related to financial reporting quality, demonstrating that audit committee monitoring mechanisms have an influence on the quality of financial reporting in Nigerian non-financial listed companies. The researchers recommended that regulatory bodies should require all three board representatives on the audit committee to be non-executive directors and that financial and industrial expertise should replace financial literacy to further improve financial reporting quality.

Khaneja et al. (2017) conducted a study on audit committees and their impact on financial reporting quality. The study used a large sample of UK companies from 2007-2010 and assessed financial reporting quality by looking at audit quality and earnings quality. The study utilized the audit fee and non-audit fee ratio as proxies for audit quality and accruals-based earnings management models as proxies for earnings quality. The findings showed that audit committees meeting three or more times per

year and fully independent audit committees had a significant positive impact on the quality of reported earnings.

Ahinful et al. (2015) studied audit committees and their effect on financial reporting in Nigerian companies. The study aimed to determine whether the audit committee is associated with improved financial reporting for a sample of Nigerian listed companies before and after the corporate governance code's new regulation for audit committees in 2003. The study used archival data in the form of annual reports to measure the association between audit committees and improved financial reporting quality. The results showed that the formation of audit committees is positively associated with improved financial reporting quality.

Sanni et al. (2020) concluded that companies with gender diversity on audit committees, as well as the presence of professional and financial experts and female directors, have better chances of finding high-quality auditors. Female audit committee chairs were found to have greater accounting ability than their male counterparts, which strengthened corporate governance processes and internal control systems. Meanwhile, Monday and Nancy's (2016) audit committee gender diversity review showed that the appointment of female audit committee members had substantial beneficial abnormal returns compared to male audit committee members' recruitment, as researchers speculated that female audit committee members would act progressively and appropriately, sending a strong image to financial institutions.

Numanovich & Abbasxonovich (2020) discovered that businesses with women on the audit committee had a lower risk of errors and reduced audit fees, demonstrating the

correlation between gender diversity and improved auditing. Hasan et al. (2021) found that female directors were better equipped for committee meetings, leading to enhanced board conduct and efficacy. Tenibiaje (2013) found that gender-diverse groups perform better than single-gender groups. Khaneja et al. (2017) argued that female directors reduce corporate losses, and Ahinful et al. (2015) found that having more female directors on boards benefits businesses, stockholders, and consumers. Segun (2019) noted that female audit committee members have superior communication skills and meeting preparations. Rupali & Bhupinder (2019) reported that companies with female CFOs use better discretionary accruals. Ethisphere Magazine ranks companies with women on their boards of directors as the most ethical (Khaneja et al., 2017).

Ravindran, Nagarajah, and Anandasayanan (2018) found a significant negative relationship between the size of the audit committee, audit committee meetings, and share price in banking and finance companies, while board size and company age are positively related to share price, and audit committee independence is non-significant and negatively related to share price.

Dakhlalh, Rashid, Abdullah, and Al Shehab (2020) demonstrated a positive and significant association between audit committee size, independence, and financial expertise with Tobin's Q, which can improve a firm's performance. Balagobei and Thirunavukkarasu (2018) found that audit committee independence, expertise, and meetings significantly impacted the organizational performance of listed hotels and travels in Sri Lanka, while audit committee size did not have a significant impact.

Dissanayake and Bandara (2018) revealed that audit committee independence and financial literacy positively affected the financial performance of listed finance companies in Sri Lanka, while audit committee meeting frequency affected the return on equity, but audit committee size did not have a significant impact. Gunathilaka and Ranasinghe (2015) found that the audit committee's knowledge and experience, role in financial reporting, and role in external auditing positively affected their effectiveness.

2.3 Theoretical Review

2.3.1 Agency Theory

The concept of agency theory emerged in the early 1970s as a combination of economics and institutional theory. While its origins are disputed, Jensen and Meckling (1976) are the most cited references in the literature. The theory has become the most preferred approach to corporate governance studies, as it provides theoretical support for the formation of audit committees (Ogunmakin et al., 2021). An agency relationship is defined as a contract in which the principal delegates some decision-making authority to the agent, who performs services on behalf of the principal. Shareholders and debt holders act as principals seeking to obtain maximum utility from management as their agent, according to agency theory (Mili & Hashim, 2020). The theory recognizes that parties with the same goal may have different motivations, and these differences can result in divergent actions. This contractual relationship generates problems of contracting between entities in the economy and is perceived in economic and business life (Abdelkarim & Zuriqi, 2020). Therefore, there exists a

contractual relationship between shareholders and directors, as well as between the audit committee and external auditors.

2.3.2 Stakeholder Theory

According to Alayemi & Morohunfola (2017), stakeholders refer to individuals or groups with legitimate interests in the activities of an organization, and these interests can be procedural or substantive. Stakeholder theory seeks to satisfy the interests of each group, including the principal and the agent, rather than focusing on other objectives. Stakeholders include stockholders, creditors, employees, customers, suppliers, local communities, and the general public, as identified by Ezeagba & Charles (2017). The IFRS has been developed to improve the quality of financial reporting to stakeholders, including shareholders, investors, government, and lenders. Investors require complete, relevant, accurate, and timely information to make sound investment decisions.

Freeman (1984) is credited with formulating stakeholder theory, which recognizes that corporate bodies have a wider coverage of accountability than the parochial representation of agency theory. According to Wheeler Colbert and Freeman (2003), stakeholder theory emerged from sociology and organizational disciplines that identify a range of stakeholders in an organization. The theory posits that stakeholders refer to any group or individual who can affect or be affected by the achievement of the organization's objectives.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

The study adopted an longitudinal research design to enable the use of existing historical data which were also in the form secondary form of data collection. The aim was to evaluate the effect of audit committee characteristics on financial reporting quality.

3.2 Population and sample of the study

The population of the study consisted of the 6 conglomerate companies listed on the floor of the Nigerian Stock Exchange as at 31st December 2020. Table 3.1 presents the population and sample of the study.

Table 3.1: Population and Sample of the study

S/NO	COMPANIES	YEAR OF LISTING
1	A.G Leventis and Companies Plc	1978
2	Chellarams Plc	1977
3	John Holt Plc	1974
4	SCOA Nigeria Plc	1977
5	UAC Nigeria Plc	1974
6	Transcorp Nigeria Plc	2005

(Source: Nigerian Stock exchange fact book 2020/2021)

A total of six companies (A.G Leventis and Company Plc, John Holt Plc, Chellarams Plc, UAC Nigeria Plc, SCOA Nigeria Plc and Transcorp Nigeria Plc) were being used as sample size since there is the availability of their data. It should be noted that each company must have delivered its annual report for the years 2015 to 2020. As such,

the study adopts a census approach to study the six listed conglomerate companies on the floor of the Nigerian Stock Exchange.

3.3 Sources and method of data collection

The research utilized existing data from audited financial reports of sampled companies over a period of six years (2015-2020). The decision to use secondary data was driven by the research methodology, which was quantitative and required numerical data to test hypotheses. The data was collected from financial reports of listed conglomerate companies and the relevant ratios or percentages were extracted based on the parameters of the variables.

3.4 Technique of data analysis

To achieve the objectives of this study and test the hypotheses the Data collected was analyzed, using descriptive statistics and correlation analysis to capture the relationship between dependent and independent variables.

Panel data multiple linear regression analysis was used to test the stated hypothesis. The t-test statistic at a 5% level of significance was used to test all the hypotheses. Statistical Package for Social Sciences (SPSS) was utilised in data analysis.

3.5 Variable Measurement

Table 3.2 Presents the variable measurement.

VARIABLE	DEFINITION	MEASUREMENT	SOURCE
Dependent Variable: CIE	Comparability Index of Equity	$1 - \left[\frac{\text{Total equity}_{\text{previous year}} - \text{Total equity}_{\text{current year}}}{\text{Total equity}_{\text{current year}}} \right]$	Mathew (2015)
Independent Variable: (I) ACM	Audit committee meeting	The frequency of the audit committee meetings is quantified as the total count of meetings conducted in a year.	Mutisya & Atheru (2019)
Independent Variable: (ii) ACI	Audit committee independence	The variable for measuring audit committee independence in this study is the count of non-executive directors who are part of the audit committee.	Abdelkarim & Zuriqi (2020)
Independent Variable: (iii) ACFE	Audit committee financial expertise	The financial expertise of the audit committee is measured by calculating the proportion of members with financial backgrounds in relation to the total number of audit committee members.	Mutisya & Atheru (2019)

3.6 Model Specification

To examine the relationship between audit committee characteristics and the financial reporting quality of the listed conglomerate firm, a linear regression model was built as follows:

$$\text{MODEL1: } CIE_{it} = \alpha + \beta_1 ACM_{it} + \beta_2 ACI_{it} + \beta_3 ACFE_{it} + e_{it}$$

Where: *CIE* = Comparability Index of Equity

ACM = Audit committee meeting of firm i at time t

ACI = Audit committee independence

ACFE = Audit committee financial expertise

a= intercept a₁, a₂, b₃ = Coefficient of ACM, ACI and ACFE e = Error term

3.7 Robustness Test

To report the robustness of the results, the study considered multicollinearity where the Tolerance and Variance Inflation Factor (VIF) result was used to ascertain the level of the interrelationship among variables.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents and discusses the findings of the study based on the analysis of the collected data. Firstly, the chapter provides an overview of the descriptive statistics of the study variables, followed by an analysis and discussion of the inferential statistics results. The inferences drawn from the statistical tests are used to test the formulated hypotheses of the study.

4.2 Descriptive Statistics

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CIE	36	.0247	.1389	.066906	.0286944
ACM	36	3	6	4.33	.676
ACI	36	.0000	.4000	.161333	.1610542
ACFE	36	.1667	.6000	.359586	.1249914
Valid N (list wise)	36				

Source: SPSS Output (2021)

Table 4.1 displays the descriptive statistics of the variables in the study. The equity comparability index (CIE) had an average of 0.066906 and a standard deviation of 0.0286944. The highest and lowest observed for CIE were 0.1389 and 0.0247, respectively. The standard deviation of 0.0286944 indicates that the data points were spread out by 0.0286944 on either side of the mean value.

The average of the audit committee meeting (ACM) for the selected period was 4.33 with a standard deviation of 0.676. The minimum and maximum of ACM were 3 and

6, respectively. The standard deviation of 0.676 indicates that there was significant variation from the mean.

The average of the audit committee independence (ACI) for the sampled period was 0.161333 with a standard deviation of 0.1610542. The minimum and maximum for ACI were 0 and 0.4, respectively. The standard deviation of 0.1610542 suggests that there was considerable dispersion from the mean value.

Lastly, the average of the audit committee financial expertise (ACFE) for the sampled period was 0.359586 with a standard deviation of 0.1249914. The minimum and maximum values for ACFE were 0.1667 and 0.6000, respectively. The standard deviation of 0.1249914 indicates that there was significant variation from the mean.

4.3 Correlational Analysis

Table 4.2 Correlations

		CIE	ACM	ACI	ACFE
CIE	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	36			
ACM	Pearson Correlation	.248	1		
	Sig. (2-tailed)	.144			
	N	36	36		
ACI	Pearson Correlation	.051	.206	1	
	Sig. (2-tailed)	.767	.228		
	N	36	36	36	
ACFE	Pearson Correlation	.851**	-.110	-.005	1
	Sig. (2-tailed)	.000	.524	.975	
	N	36	36	36	36

Source: SPSS Output (2021)

The results in Table 4.2 show the degree of association between comparability index of equity and the independent variables individually as well as between the independent variables themselves. The table presents a positive relationship between comparability index of equity and audit committee meeting from the correlation coefficient of .248 which is insignificant at a 5% level of significance. This relationship implies that as audit committee meeting increases, comparability index of equity increases for the selected period, however, in a no negligible manner. Table 4.2 shows also that there is a positive association between the comparability index of equity of the selected period and audit committee independence, from the correlation coefficient of .051 which is also insignificant at 5% level of significance. This relationship implies that as the value of audit committee independence increases, the comparability index of equity will also increase but in an insignificant form. Finally, Table 4.2 shows also that there is a positive association between audit committee financial expertise of the selected period and comparability index of equity, from the correlation coefficient of .851 which is significant at a 5% level of significance. This relationship implies that as the amount of audit committee financial expertise, the comparability index of equity will also increase in a significant manner.

The analysis of the relationships between the dependent variable comparability index of equity and all the independent variables and between independent variables themselves indicated that some are significant and some are not significant; However, to conclude on the relationship and the impact of the dependent variable comparability

index of equity and all the pairs of independent of Nigerian conglomerate companies, the regression model of the study is used.

4.4 Multicollinearity Test

Table 4.3 Multicollinearity Test

VARIABLES	VIF	TOLERANCE
ACM	1.057	.946
ACI	1.045	.957
ACFE	1.013	.988

Source: SPSS Output (2021)

To investigate the existence of multicollinearity, the variance inflation factors (VIFs) for each of the explanatory variables are computed as depicted in the table above. VIFs as reported in the table are higher than one (1) and lower than ten (10), a range that is used as a rule of thumb for the indication of the absence of multicollinearity problems. Also, the tolerance level of every variable is lower than one (1) and greater than 0.1 which is also a range that is used as a rule of thumb for the indication of the absence of multicollinearity problems. Thus, these results support the lack of the presence of multicollinearity in the research model.

4.5 Regression Analysis

Table 4.4 Regression Results

	Coefficient	T	P-Values
Constants	-.070	-4.695	.000
ACM	.015	4.838	.000
ACI	-.003	-.223	.825
ACFE	.204	12.581	.000

R-Square = 0.312; Sign = 0.000 e= 0.0119

Source: SPSS Output (2021)

Regression is used to show the degree to which an explanatory variable will affect the explained variable. Table 4.4 above shows that the functional relationship between the dependent variable and the independent variables is:

$$CIE_{it} = \beta_0 + \beta_1 ACM_{it} + \beta_2 ACI_{it} + \beta_3 ACFE_{it} + e_{it}$$

$$CIE_{it} = -.070 + .015 ACM_{it} - .003ACI_{it} + .204 ACFE_{it} + 0.063$$

This implies that two of the independent variables (audit committee financial expertise and audit committee meeting) have a positive influence on comparability index of equity while only audit committee independence has a negative impact on comparability index of equity. The result further shows that the and audit committee meeting, audit committee independence and audit committee financial expertise of the selected companies within the selected period will be able to explain the comparability index of equity to a tune of .015, -.003 and .204 respectively.

More so, Table 4.4 displays the result of the regression used to test all the stated hypotheses for this study. The regression result shows that there is a significant relationship (at 5% level of significance) between audit committee meeting and comparability index of equity for the sampled companies in Nigeria within the selected period. This is evident in the coefficient value of .015, T value of 4.838 and P value of .000.

Audit committee independence has a negative insignificant relationship with comparability index of equity as shown by the coefficient value, T value and P value of -.003, -.223 and .825 respectively. This implies that a proportionate increase in audit committee independence to a tune of .128 will lead to a non-negligible decrease in the comparability index of equity.

Finally, audit committee financial expertise has a positive significant relationship (at 5% level of significance) with comparability index of equity as shown by the coefficient value, T value and P value of .204, 12.581 and .000 respectively. This implies that a proportionate increase in audit committee financial expertise to a tune of .000 will lead to a significant increase in the comparability index of equity.

The R-square which is the multiple coefficients of determination gives the percentage or proportion of total variation in the dependent variable explained by the independent variables jointly. Hence, the result of the Adjusted R-square value of 31.2% implies that the total variation in comparability index of equity is caused by audit committee meeting, audit committee independence and audit committee financial expertise of listed conglomerate companies in Nigeria within the selected period, while the

remaining 68.8% is caused by other factors other than the variables captured in the model.

4.6 Test of Hypotheses

Based on the results in the table, the hypotheses of this study which were stated in the null form are tested below.

H01: Audit committee meeting has no significant effect on the comparability Index of equity of listed conglomerate companies

The assumption under the test procedure is that when the p-value is ≤ 0.05 ; the null proposition is invalidated, else the study fails to reject the null proposition if the p-value is > 0.05 .

From the table, the results show that the Audit committee meeting has a coefficient of .015 with a p-value of .000 which is significant. This result provides sufficient statistical evidence for rejecting Hypothesis 1 which states that, Audit committee meeting has no significant effect on the comparability Index of equity of listed conglomerate companies. The result of this study, therefore, supports that, Audit committee meeting has a significant effect on the comparability Index of equity of listed conglomerate companies.

H02: Audit committee independence has no significant effect on the comparability Index of equity of listed conglomerate companies.

Also, the results show that Audit committee independence has a coefficient of -.003 and a p-value of .825 which is insignificant at 5%. This fails to provide sufficient evidence for rejecting Hypothesis 2 which states that, audit committee independence

has no significant effect on the comparability Index of equity of listed conglomerate companies.

H03: Audit committee financial expertise has no significant effect on the comparability Index of equity of listed conglomerate companies.

Audit committee financial expertise shows a coefficient of .204 and a p-value of .000 which is significant. This result provides statistical evidence for rejecting Hypothesis 3 which states that, Audit committee financial expertise has no significant effect on the comparability Index of equity of listed conglomerate companies. The result of this study, therefore, supports that, Audit committee financial expertise has a significant effect on the comparability Index of equity of listed conglomerate companies.

4.7 Discussion of Findings

This study was carried out to examine effect of audit committee characteristics on the financial reporting quality of quoted conglomerate companies in Nigeria. From the regression result, Audit committee meeting has a significant effect on the comparability Index of equity of listed conglomerate companies. This implies that, the number of Audit committee meeting will substantially affect financial reporting quality of listed conglomerate companies. This finding is similar with the findings of Dakhllalh, et al., (2020) who also found a significant relationship between audit committee characteristics and financial performance measure by TOBIN Q.

The effect of Auditors' independence on financial reporting quality of quoted conglomerate companies in Nigeria was also considered in the study and the regression analysis revealed that; audit committee independence has no significant

effect on the comparability Index of equity of listed conglomerate companies. This implies that independence of the auditors from the management is not significant factor influencing financial reporting quality of quoted conglomerate companies in Nigeria. This discovery is comparable to those of Balagobei and Thirunavukkarasu (2018), who also discovered a negligible connection between the independence of the audit committee and financial results.

Lastly, the study examined whether Audit committee financial expertise has an influence on financial reporting quality of quoted conglomerate companies in Nigeria. In this case, the regression results revealed a significant relationship between the two variables. It thus means that, Audit committee financial expertise is a negligible factor influencing the financial reporting quality of quoted conglomerate companies in Nigeria. The results of Agwor & Onukogu (2018), who also discovered a substantial association between audit financial expertise and financial reporting quality, are similar to those of this study.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of finding

The purpose of this study was to investigate the impact of audit committee characteristics on the financial reporting quality of quoted conglomerate companies in Nigeria. The research design used was a correlation analysis to establish the relationship between the variables. The data was collected from secondary sources, specifically the annual reports and accounts of all six listed conglomerate companies on the Nigerian Stock Exchange for a period of six years (2015-2020). The study formulated three hypotheses, which were tested using multiple regression analysis. The results of the descriptive statistics, correlation matrix, and regression analysis were presented and discussed in chapter four of the study.

The regression analysis provided evidence to reject the first and third hypotheses regarding the effect of audit committee meetings and audit committee financial expertise, respectively, on the financial reporting quality of listed conglomerate companies. However, the second hypothesis, which evaluated the impact of audit committee independence, did not provide sufficient evidence to reject it.

In summary, the findings indicate that audit committee meetings have a significant effect on the financial reporting quality of listed conglomerate companies, while audit committee independence has no significant effect. Audit committee financial expertise was also found to have a significant impact on the financial reporting quality of listed conglomerate companies.

5.2 Conclusion

Based on the findings, the study concludes audit committee meeting positively and significantly affects the financial reporting quality of conglomerate companies listed on the NSE. This implies that an increase in Audit committee meetings results in significant improvement in the financial reporting quality of conglomerate companies listed on NSE.

The study also concludes that Audit committee independence negatively but insignificantly affects the financial reporting quality of conglomerates listed on NSE with the implication that an increase in Audit committee independence results in an insignificant decrease in the financial reporting quality of conglomerate companies listed on NSE.

The study further concludes that Audit committee financial expertise positively and significantly affects the financial reporting quality of conglomerate companies listed on NSE. The implication here is that an increase in Audit committee financial expertise results in a significant improvement in the financial reporting quality of conglomerate companies listed on NSE.

5.3 Recommendations

In line with the findings of the study, the following recommendations are made:

- i. Management of conglomerate companies should strive to maintain or increase the frequency of audit committee meetings. The study found that frequent meetings have a significant positive impact on the financial reporting quality of listed

conglomerate companies. This will provide audit committee members with more opportunities to scrutinize financial reports and improve their quality.

- ii. Regulatory bodies in Nigeria should ensure that the majority of audit committee members possess financial literacy and industry expertise. The study found that audit committee financial expertise has a significant positive impact on the financial reporting quality of listed conglomerate companies. This will enhance the quality of financial reports and improve investor confidence.
- iii. Although the study found an insignificant relationship between audit committee independence and financial reporting quality, management should still strive to ensure audit committee independence as it can affect other financial indicators of conglomerate companies. This will ensure greater transparency and accountability in financial reporting.

5.4 Areas for Further Research

The issues involved in this study area cannot altogether be covered by single research, and hence, the need for further research. The following research areas are hereby recommended:

The study covered only listed conglomerate companies in Nigeria for five years. Therefore, there is a need for further research using other sectors in Nigeria.

Researchers in the area can carry out similar studies using other audit committee characteristics measures such as audit committee share ownership and audit committee size as their independent variables to provide additional insight as to how audit committee characteristics affect financial reporting quality.

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