

**EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON  
FINANCIAL REPORTING QUALITY OF QUOTED CONSUMER  
GOODS COMPANIES IN NIGERIA**

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BENIN CITY**

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**A PROJECT WRITTEN AND SUBMITTED TO THE DEPARTMENT  
OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE  
AWARD OF THE BACHELOR OF SCIENCES(B.Sc.) DEGREE IN  
ACCOUNTING OF THE UNIVERSITY OF BENIN, BENIN CITY.**

**OCTOBER, 2023.**

## **DECLARATION**

I, DEBORAH AJOKE ADEBAYO hereby declare that this project report is based on a study undertaken by me in the Department of Accounting, University of Benin, Benin City, under the supervision of Prof. K. O Ogiedu. This project report has not been submitted elsewhere for the award of a degree. The ideas and views of the research project are products of research undertaken by me. Where the ideas and views of other researchers have been expressed, they have been duly acknowledged.

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**DEBORAH AJOKE ADEBAYO**

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**DATE**

## CERTIFICATION

This is to certify that this project work was carried out by Deborah Ajoke Adebayo in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Edo State, in partial fulfillment for the award of Accounting (B.Sc.) degree in Accounting.

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**Date**

## **DEDICATION**

This project is dedicated to God Almighty, my strength and rock who empowered and protected me through this program and to my ever supporting family whose love has been a source of strength and comfort.

## **ACKNOWLEDGEMENTS**

My gratitude goes to my rock and my strength, God Almighty, for His strength and love that saw me through this program.

I want to use this opportunity to express a hearty appreciation to my project supervisor, Prof. K. O. Ogiedu, for his corrections and guidance throughout the duration of this work.

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## ABSTRACT

*This study analyses the effect of audit committee characteristics on the financial reporting quality of quoted consumer goods companies in Nigeria. The purpose of this research is to examine the relationship between the dependent variable, financial reporting quality and the independent variables, audit committee independence, audit committee size, audit committee financial expertise and audit committee meeting frequency. Secondary data was used in this study and the sample size for the study was derived using Taro Yamane formula. Data were obtained from annual reports of the 21 consumer goods companies listed on the Nigerian Exchange Group from 2018 to 2022. Descriptive statistics, correlation, and Ordinary Least Squares (OLS) regression were used to analyze the data. The study finds that audit committee independence and audit committee financial expertise have a positive and significant effect on financial reporting quality while audit committee frequency of meeting and audit committee size have positive but insignificant effect on financial reporting quality. The study recommends that training and seminars be organised for audit committee members in order to keep them up to date on their roles and responsibilities, allowing them to be more effective and efficient in their assignments. Furthermore, this study recommends that the independent directors of the audit committee should make up the larger number than the shareholder's representative.*

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

In today's complicated corporate climate, good financial reporting is crucial to preserving openness, accountability, and investor confidence. Investors depend significantly on trustworthy and easily understandable financial data to make well-informed choices, as it equips them with the information necessary to assess the feasibility and potential gains of their investments (Nwaobi et al, 2013). Therefore, financial reporting is an essential avenue for businesses to express their financial health and improve investors (existing and potential) confidence.

Due to the role of financial reporting, especially on investment, management is often pressured to keep a positive view of the corporation's financial health through manipulation of financial statement to misrepresent their true financial position.

Therefore, in the area of management in corporations, the audit committee has a crucial function in upholding transparency, responsibility and accuracy in financial disclosure. The audit committee as a part of the board of directors serves as an independent supervisor and works toward safeguarding the interests of stakeholders and shareholders alike.

## **1.2 BACKGROUND STUDY**

Financial reporting is a typical accounting process utilized by companies in which financial statements such as cash flow statement, statement of profit or loss, statement of financial position etc., are used to reveal a firm's financial position and efficiency over a specific time period, usually annually or quarterly. It is typically used to gather information about their current financial status and to make projections about their future financial performance. A comprehensive financial report is an essential component of any business operations, as it provides investors with important information about its performance. Information derived from this report massively

affects the decisions made by investors (existing and potential), banks and other stakeholders. Hence, it is anticipated that the reporting should be clear and open to present an accurate and equitable representation of the company's financial status to its stakeholders. Proficiently utilizing financial data provides investors with high confidence when making critical investment decisions.

However, a series of events show corporation executives to have succumbed to 'managing' their financial statements in order to maintain a positive image in the eyes of investors. Management may fabricate a false sense of financial health by altering financial figures with the intention to increase investor's confidence and protect their positions inside the company (Albrecht et al., 2009). Despite being aware of the possible long-term negative effects on the organisation, some managers control earnings because they are under pressure to reach financial performance expectations. Earnings management and window-dressing such as: misrepresenting

revenues, hiding liabilities, manipulating earnings, or overstating assets are examples of means management commit fraud in financial disclosure. Alternatively put, management fraud is the falsification of financial statements in an attempt to improve performance and stability in organization's growth to encourage investors and improve public confidence when the financial situation of the company says otherwise. A perfect example would be Enron; a multibillion dollars energy company. In the Enron scandal that unfolded in 2001, Enron executives manipulated its financial statements by using unofficial accounting practices and created fake holdings to conceal debt, inflate sales, and deceive investors by giving the impression of financial stability (McLean & Elkind, 2003). This scandal prompted the Sarbanes-Oxley Act (2002) regulation. Worldcom is another large corporation whose executives engaged in several accounting manipulations to artificially inflate its earnings and hide expenses through the improper classification of regular operating expenses as capital

expenditures, thereby spreading the costs over a longer period (Ackman, 2003).

Executives and top management of large corporations in Nigeria are not exempted as publicized instances of corporate financial frauds, accounting irregularities, and failures at firms like Cadbury Nigeria Pic in 2006 and Afribank Nigeria Pic in 2009, has become a cause for concern regarding the accuracy of financial reporting of listed companies in Nigeria (Adeyemi, Okpala & Dabor, 2012).

In Nigeria, audit committees are established by law in public companies to oversee compliance with legal requirements and ethical standards regarding accounting and reporting. They accomplish this by continually assessing the organization's accounting and reporting systems, section 359(4 & 5) CAMA 2020 as amended. However, the efficiency of the audit committee has been a subject of uncertainty and discussion since the scandals involving these prominent corporations.

Although, empirical work has been done to establish the impact of audit attributes on quality of financial reporting (Moses, Ofurum & Egbe, 2016; Masmoudi, S. M. 2021; Oji et al., 2017), this study proposes the impact of audit committee characteristics such as audit committee independence, audit committee size, audit committee financial expertise, and frequency of audit committee meetings on the financial reporting quality of quoted consumer goods company in Nigeria.

### **1.3 STATEMENT OF RESEARCH PROBLEM**

Due to company collapses that occurred shortly after the publishing of hefty earnings, financial statement credibility has been questioned since the start of the last decade. This called for tighter laws, higher standards, and modified corporate governance practices. One of the tools authorities have used to guarantee precise and top-notch financial disclosure is the audit committee. This effort is a worldwide sensation. Numerous programs have been implemented in Nigeria, including the banking governance code of the

Central Bank of Nigeria. Due to the importance of audit committees, listed companies in Nigeria are mandated by the Companies and Allied Matters Act (CAMA, 2020) to establish an audit committee. This committee is responsible for overseeing the accuracy of a company's accounting system and helping to ensure the trustworthiness and dependability of an organization's financial disclosure.

However, as fraudulent activities like manipulating financial data and managing earnings become more prevalent in the reporting of large corporations, there has been significant unease among stakeholders and investors. This has raised serious doubts about the audit committee's efficacy and, consequently, its influence on the quality of companies' financial reporting.

Therefore, this study will be focused on the audit committee characteristics such as audit committee independence, size, financial expertise, and frequency of meetings and whether or not these characteristics of the audit

committee have an effect on the quality of financial reporting of quoted consumer goods companies in Nigeria.

#### **1.4 RESEARCH QUESTIONS**

1. What is the effect of audit committee independence on the financial reporting quality of listed consumer goods companies in Nigeria?
2. What is the effect of audit committee size on the financial reporting quality of listed consumer goods companies in Nigeria?
3. What is the effect of financial expertise of audit committee on the financial reporting quality of listed consumer goods companies in Nigeria?
4. What is the effect of meeting frequency of audit committee on the financial reporting quality of listed consumer goods companies in Nigeria?

## **1.5 OBJECTIVES OF STUDY**

The broad objective of this study is to examine the effect of audit committee characteristics on financial reporting quality of quoted consumer goods companies in Nigeria.

In order to achieve the above broad objective, the following are the specific objectives:

1. To determine the effect of audit committee independence on the financial reporting quality of listed consumer goods companies in Nigeria;
2. To examine the effect of audit committee size on the financial reporting quality of listed companies consumer goods companies in Nigeria;
3. To determine the effect of financial expertise of the audit committee on the financial reporting quality of listed consumer goods companies in Nigeria;

4. To examine the effect of frequency of meetings of the audit committee on the quality of financial reporting of listed consumer goods companies in Nigeria.

## **1.6 SIGNIFICANCE OF STUDY**

The central objective of this study is to assess how the attributes of the audit committee influence the quality of financial reporting within publicly listed consumer goods firms in Nigeria. However, this study is bound to benefit a number of persons/bodies. For example, Quoted consumer goods companies in Nigeria; by examining the connection between audit features and the integrity of the financial reporting, this may encourage them to make changes to their body of audit committee which would bring improvement to their financial reporting.

Also, the findings from this research will be relevant in practice and have practical ramifications for various financial reporting process stakeholders. Regulators can acquire insight into the efficacy of present legislation and

make educated decisions about prospective adjustments by looking at the impact of audit characteristics. The findings can be used by audit companies to improve their service offerings and pinpoint opportunities for practice improvement. The findings can be used by financial analysts and investors to help them manage their portfolios, identify risks, and make better investment decisions. Through the qualities of the audit committee that have been focused, this study also gives us a model for analyzing the quality of financial reporting in Nigerian corporations. Beneficiaries comprise: Society (This Study will assist in regaining the public's lost trust in the Nigerian audit committee and financial reporting), investors and other interested parties, analyst and future researchers, data bank for future studies, existing body of knowledge, policy makers in the public and private sectors and relevant government agencies and institutions.

## **1.7 RESEARCH HYPOTHESIS**

**H0<sub>1</sub>** : Audit committee independence has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

**H0<sub>2</sub>** : Audit committee size has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria

**H0<sub>3</sub>** : Audit committee financial expertise has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

**H0<sub>4</sub>**: Frequency of audit committee meetings have no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

## **1.8 JUSTIFICATION OF STUDY**

The gap in the existing body of literature serves as justification for carrying out this investigation. Although the association between audit characteristics and financial reporting has been studied in the past, more thorough and

current research is required. By analyzing the impact of particular audit characteristics on the results of financial reporting, this study tries to close this gap. This will add to the body of existing research and give both academics and practitioners insightful information.

### **1.9 SCOPE OF STUDY**

This research covers the investigation of the effect of audit committee characteristics on financial reporting quality of quoted consumer goods companies in Nigeria. The sample size for this research is twenty-one (21) companies, which is the entire population of quoted consumer goods on Nigeria stock exchange. The time horizon for this study is from year 2018 to year 2022. The variables covered in this study would be the independent variable of audit committee characteristics and the dependent variable of quality of financial reporting quality.

## **1.10 DEFINITION OF TERMS**

**Audit committee:** a committee set up from among the board of directors charged with the responsibility of monitoring the financial reporting process.

**Financial reporting quality:** Financial reporting quality is the extent to which financial statements give us information about the financial situation and performance of an organization that is fair and authentic (Chen et al., 2008)

**Consumer goods:** customer goods are items purchased by the typical customer for consumption.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

In this chapter, theoretical framework, literature on subject matter and variables will be examined.

#### **2.2 FINANCIAL REPORTING QUALITY**

International Accounting Standards Committee (IASC) defines financial statements as the documents that make available necessary information regarding the financial status, achievement, and the capability of a firm that is useful to a variety of users in making economic decisions (Elliot and Elliot, 2011). The correctness, dependability, and transparency of the financial data shown in a company's financial statements and reports are referred to as financial reporting quality. The quality of financial reporting is the extent to which financial information is given about the financial situation and

performance of an organization that is fair and authentic (Chen et al., 2008).

It is the process of providing external users with financial data about an entity that is relevant for their decision making processes and for evaluating the management of the entity.

Financial reporting quality, according to Tang Chen and Zhijun (2008), is the extent to which financial disclosure give us accurate and dependable overview about the financial health and performance of a company. The standard of financial reporting, according to Jonas and Blaurchet, (2000) is precise and comprehensible information that is not meant to mislead consumers. This definition is, nevertheless, one that is usually recognized. The IASB (2008) held that the purpose of financial reporting was to give the reporting entity access to financial data that would be helpful to communicate to potential entity investors, lenders, and other creditors in their function as capital providers in order for them to make decisions.

The primary goal of financial reporting is to furnish valuable financial data concerning economic entities that aids in economic decision making. Delivering valuable financial information holds significance as it can have a favorable impact on users of accounting information, such as investors, financial institutions, and other stakeholders, helping them make decisions related to investments, credit, and resource allocation, thereby improving overall stock market performance. High-quality reporting relies on disclosure and transparency in the financial statements (Enofe, Aronnwam, & Abadua, 2013).

A corporation's financial information quality may be measured using a variety of criteria, including the consistency of its earnings, accrual amounts, firm characteristics, corporate governance and controls, accounting policy selection, and so forth. However, the quality of information is generally deemed ideal if it fairly depicts the firm's real economic state utilizing relevant and trustworthy facts.

Accounting information in financial reports must be relevant, authentically portrayed, comparable, verifiable, timely, and intelligible in order to achieve high-quality reporting. Accounting information provided in accordance with high quality accounting standards is supposed to aid investors in making optimal investment decisions, which will reflect on the firm's market value. In order to ensure the quality of financial reporting, regulatory boards such as the international accounting standard board (IASB) and the financial reporting council of Nigeria (FRCN) are established to develop accounting and reporting standards that provides guidelines on how transactions are recognized and the information contained in the financial statements reported. IASB recognized key characteristics of financial reporting quality to be comparability, understandability, transparency, completeness, consistency, timeliness and reliability. Therefore, by following the standards and guidelines set by these regulatory bodies, financial reporting is expected to be dependable.

Many studies in the accounting literature examine the quality of financial reporting through factors on financial reporting. According to research, the quality of financial reporting is influenced by a variety of factors. Governance, the accounting profession, economic variables, internal audit, taxation, and political systems are among the elements that impact and govern financial reporting quality (Gajevszky, 2015). Several scholars investigated the influence of an audit and the auditor's report on the firm's economic worth as a means to measure the quality of financial reporting (Ghafran, 2003; Kim, Simunic, Stein, and Yi ,2007; Willekens, 2008). According to these studies, the auditor's report adds value to financial reporting information by offering reasonable confidence regarding the degree to which the annual report correctly portrays economic events. Maines and Wahlen (2006) in agreement stated that an unqualified audit report is required for financial reporting information to be perceived as dependable or honestly portrayed.

### **2.2.1 Financial Reporting Quality and Capital Market**

The efficiency of the market, investor confidence, and business value are all impacted by the quality of financial reporting, which is a crucial element of the capital markets. Strong financial reporting procedures increase market integrity, create transparency, and lessen information asymmetry. Financial reporting quality is influenced by regulatory frameworks, corporate governance procedures, and market pressures as a whole. Companies that place a high priority on accurate financial reporting might benefit from things like easier access to funding and higher market valuation (Verrecchia, 2001).

By ensuring that prices reflect the underlying economic realities of businesses, accurate and trustworthy financial reporting improves market efficiency (Francis et al, 2015). When financial statements are of high quality, investors may allocate capital more effectively across businesses because they can base their judgment on accurate information. Investor trust

is increased and information asymmetry among the firm's executives and its stakeholders is lessened through high-quality financial reporting. Investors are more inclined to invest in businesses that provide their financial information in a transparent and accurate manner because it lessens the perceived risk of information that is withheld or misrepresented (Lang & Lundholm, 1996).

Financial reporting excellence and stock market liquidity have been proven to be positively correlated in several researches. Stocks of companies with better financial reporting practises are typically more liquid because investors view these companies as being less risky. Investors and businesses both profit from the liquidity, which makes trading simpler and may even lower transaction costs (Ball et al, 2005)

According to studies, companies with high-quality financial reporting typically have greater market prices. Investor trust is increased through accurate and honest financial reporting, which increases the willingness to

pay for a company's shares. Furthermore, trustworthy financial data improves investor evaluations of a company's potential for future cash flows and development, which affects the market price at which it is valued (Biddle et al, 2009).

### **2.2.2 Financial Reporting and Earnings Management**

Managing earnings is the intentional manipulation of financial statements to favorably portray financial outcomes. Companies may use earnings management to improve stock prices, access financial markets, obtain favorable loan conditions, fulfill market expectations, or initiate CEO compensation plans. The use of aggressive accounting practices, the modification of cost recognition, the manipulation of revenue recognition, and the selective disclosure of information are all examples of earnings management tactics (Dechow et al, 2010).

Investors may allocate capital based on erroneous information when financial reporting quality is undermined by earnings management, which can result in mispricing of securities and improper resource allocation. Economic development and capital market efficiency may suffer as a result (Leuz, 2003). International Financial Reporting Standards (IFRS) is a collection of universally recognized accounting principles that was created by the International Accounting Standards Board (IASB). By setting strict standards, IFRS reduces potential for earnings management by emphasizing fair presentation and transparency.

Earnings management techniques might conceal a company's genuine financial performance and situation. Due to the lack of openness, stakeholders and investors lose faith in the market, which might result in inefficient market behavior (Dechow et al., 2010) as financial measurements that investors and analysts use to assess a company's performance and make investment choices can be distorted. Financial analysis can be inaccurate as

a result of manipulated results since they can produce false measurements of profitability, liquidity, and leverage (Beneish, 2001).

### **2.3 AUDIT COMMITTEE**

The audit committee comprises board members who bear the responsibility of supervising the financial reporting procedure and choosing both internal and external independent auditors. They are a vital link between the management, shareholders and external auditors. Institute of internal auditors defines the audit committee as the governing body that is charged with oversight of the organization's audit and control functions.

According to Rezaee (2008), an audit committee is made up of independent directors, that is, directors who is not part of management and are tasked with the supervisory responsibility of ensuring dependable corporate governance, a process of quality financial reporting, an effective internal control structure, a dependable accounting and audit function, and an understood code of business ethics in order to create and safeguard the

interest of investors and shareholders. Whereas, to Marx (2009), an audit committee is made up of independent non-executive members who are responsible with providing supervision to the board of directors in order to help them satisfy their financial reporting, risk management and control, and audit-related obligations.

In Nigeria, the audit committee is characterized as a group comprised of directors and representatives from enterprise shareholders. Their primary role is to examine the annual financial statements prior to presenting them to the board of directors, while also overseeing the efficacy of the entity's accounting and internal control system, in accordance with section 359(6) of the CAMA 2020 as modified. According to the Securities and Exchange Commission (2011), audit committees are expected to play a role in supervising the honesty of a company's financial statements, ensuring compliance with legal and regulatory obligations, evaluating the

qualifications and independence of external auditors, and assessing the performance of both the internal audit function and external auditors.

According to S.359 (6) (CAMA, 2004), the functions and objectives of the audit committee shall include (a) ascertaining whether the reporting and accounting policies of the company are following legal specifications and agreed ethical conducts, (b) reviewing the scope of audit planning requirements, (c) reviewing the findings on management matters in agreement with the external auditors and departmental responses attached, (d) keeping under check the effectiveness of the firm's internal control system and accounting policies, (e) making recommendations to the board concerning appointment, removal and remuneration of the external auditors, and (f) authorizing the internal auditor to probe any activities of the company which may be of interest to the committee.

CAMA (2020) section 369 (4), the audit committee of a public company should have 5 (five) members i.e., 3 (three) shareholders and 2 (two) non-

executive directors with at least one member being a member of a professional accounting body in Nigeria established by an Act of the National Assembly. This provision is in line with the principles of the Nigerian Code of Corporate Governance 2018 which provides that at least one member of the audit committee should be “...*a financial expert...have current knowledge in accounting and financial management and be able to interpret financial statements*” (Ojuh & Makinde, 2021). This arrangement makes it more effective at limiting the executive directors' authority, particularly with regards to accounting and financial reporting (Enofe et al., 2013).

### **2.3.1 Audit Committee and Internal Audit**

Independent directors who are not involved in the day-to-day management of the corporation often make up audit committees. They are able to give objective monitoring of the internal audit function as a result of their independence. The committee assists in ensuring that internal auditors carry

out their responsibilities objectively and without undue influence from management by routinely examining and criticizing the internal audit operations.

By mandating internal audit reports to be presented to the audit committee instead of senior management, as suggested by Tricker (2015), and having the committee, rather than managers, propose the selection or removal of the chief internal auditor, as outlined by Goodwin and Yeo (2001), leads individuals within the internal audit function to perceive that the audit committee places a higher level of importance on their work, as observed by Turley and Zaman (2007). Additionally, this practice is seen as fostering their independence, as noted by Ahmad et al (2009). Finally, the committee can improve the role of internal audit by serving as an impartial platform where internal auditors can voice concerns about the company's management (Goodwin and Yeo, 2001).

Numerous studies have been explored to establish the relationship and impact of the audit committee as it plays a role in supervising and assessing the effectiveness and efficiency on the internal audit function of an organization to ensure internal audit is carried out independent of management influence. According to Cohen et al. (2004), a tight working connection between the audit committee and internal audit function enhances their independence. Works like, the function of audit committees in negotiating funding for internal auditing (Carcello et al, 2005; Abbott et al, 2010; Barua et al, 2010); the relationship between audit committee traits and the identification and correction of internal control weaknesses (Krishnan, 2005; Zhang et al, 2007; Goh, 2009; Hoitash et al, 2009). In the corporate governance mosaic, audit committee and internal audit have varying expectations for and contributions from one another (Sarens & Beelde, 2006; Zain et al, 2006; Sarens et al, 2009).

### **2.3.2 Audit Committee and Earnings management**

One of the crucial internal governance control systems in the organization is the audit committee. In order to assure accurate financial reporting and corporate responsibility, it is essential to manage financial reporting (Zhang, Zhou, & Zhou, 2007).

Better corporate governance standards are ensured by an engaged audit committee, which ultimately benefits all stakeholders. The interests of the stakeholders were given a lot of emphasis on the concept of an active audit committee stating that the audit committee's major objective is to protect the interests and welfare of stakeholders (Dezoort et al, 2002). Numerous authors have attempted to clarify the relationship between stakeholders and corporate governance. Mattingly et al. (2009) assert that effective corporate governance, strong earnings quality, and minimal earnings manipulation are interconnected with the practice of stakeholder management.

Agency theory helps in determining the relationship that exists between the audit committee and profits manipulation. According to the notion, high agency issue levels necessitate good monitoring quality (Beaudoin, 2008). The audit committee routinely interacts with the internal auditor, external auditors, and financial managers to analyse and reassess the financial statements. It also coordinates the company's financial reporting process (Klein, 2002). Hence, several studies have been carried out to find the connection between earnings management and audit committee meetings. Abbott et al., (2004) and Xie et al., (2003) states that audit committees are better equipped to embark on their supervisory role the more regularly they meet.

However, the extensive analysis produced contradictory findings, which they attribute to variations in corporate governance practices across nations due to diverse legal systems, cultural norms, and political issues in each nation. Abbott et al (2000), Lin and Hwang (2010), and Metawee (2013)

found a substantial inverse relationship between the practices of earnings management and audit committee attendance. Rajpal (2012), Yang and Krishnan (2005), and Bédard et al (2004) despite other studies suggesting the opposite, found no link between the number of audit committee meetings and the degree of profits management. The fundamental objective of the audit committee is to give added assurance as to the adequacy and reliability of financial information distributed to shareholders and other interest persons (Oladipupo, 2017). This is achieved through effective keeping track of the above-discussed financial reporting process as well as the internal audit role.

### **2.3.3 Audit Committee and External Auditor**

The external auditor's connection with the organization is within the audit committee's control. The audit committee assists in settling any conflicts between the external auditor and the organization and make sure that there is a solid working relationship between the top management whose financial

statements are being reviewed and the external auditor (Alrshah & Fadzil, 2013). All of this contributes to ensuring the external audit's quality and boosting trust in the final report (Bédard & Compernelle, 2014).

According to Carcello and Neal (2003), an independent audit committee serves as a monitoring tool and can prevent management from dismissing auditors who wish to provide the business with a going-concern report. Companies consisting of independent audit committee are more inclined to use external auditors who have sector expertise, according to Abbott and Parker (2000). This can be a sign that these committees desire to improve the caliber of their financial reports.

#### **2.3.4 AUDIT COMMITTEE CHARACTERISTICS**

At this stage, each individual variables of audit committee examined in this research are reviewed.

### *2.3.4(a) Audit committee independence*

When a audit committee of a firm performs its oversight duties regarding financial reporting, internal controls, and auditing procedures, it can be said to be independent when it can act impartially and objectively. The audit committee's independence is essential to ensuring that it can reach objective conclusions and choices that are in the most beneficial long-term interests of the business and its shareholders.

The SEC's guidelines provide that to ensure audit committee independence, its members must be free from connections to the company that would compromise their capacity to make independent decisions. This includes taking into account any financial or personal connections the committee members may have with the business, its leaders, or its external auditors.

A study by Bedard et al (2010) discovered a significant link between audit committee independence and reliable financial reporting, highlighting the importance of independent oversight. Oji et al, (2017) also claimed that an

organization's financial reporting quality is significantly impacted upon by the audit committee's independence.

#### *2.3.4(b) Audit committee size*

The audit committee size speaks of the sum of members in the committee. An audit committee's size may vary depending on the organization and its unique needs. Although there are no set standards for the number of audit committee members, regulatory organizations and governance frameworks have produced guidelines and recommendations.

In Nigeria, CAMA (2020), the audit committee of a public company should have 5 (five) members i.e., 3 (three) shareholders and 2 (two) non-executive directors with a minimum of one member who is a part of a Nigerian professional accounting organisation that was set up by a National Assembly Act. A broader group might bring more diverse viewpoints and expertise, which would strengthen the review process. Also, larger audit committees do tend to act more like authoritative bodies which improves their

monitoring function performance. However, a group that is too big could have trouble coordinating its efforts which would prove to be a disadvantage in the long-run.

While Hasan et al. (2020) found a lack of correlation between audit committee size and financial reporting quality, Mohammed et al. (2017) discovered a positive noteworthy connection between audit committee size and accounting conservatism..

#### *2.3.49(c) Audit committee financial expertise*

The knowledge and experience that committee members have in financial accounting and reporting, including a thorough knowledge of Generally Accepted Accounting Principles (GAAP) and financial statement analysis is referred to as audit committee financial expertise. In order for the audit committee to effectively and efficiently fulfil its task of oversight, their financial expertise is required. Members of the committee can review financial information efficiently, evaluate the effectiveness of internal

controls, and have relevant conversations with management and external auditors if they have vast financial experience.

In Nigeria, S404 (5) of CAMA, the Code of Corporate Governance of the Securities and Exchange Commission 2011 (“the SEC Code”) and the Nigerian Code of Corporate Governance 2018 (“NCCG 2018”) mandates that every member of the Audit Committee have a working knowledge of finance and be capable of reading and comprehending financial documents.. According to S404(5), at least one member must belong to a professional accounting organisation that was created by an Act of the National Assembly. External auditors must be chosen, hired, and supervised by audit committees. A committee with strong financial knowledge may assess an auditor's credentials, independence, and the adequacy of their audit methods with effectiveness. Due to this supervision, auditors are guaranteed to carry out thorough studies and offer trustworthy views about the fairness of financial accounts (Rahman et al, 2020).

Understanding complicated accounting difficulties and efficiently supervising financial reporting depend on the audit committee's financial knowledge. Research by Carcello et al. (2005) found a favourable relationship between the audit committee's financial expertise and the quality of financial reporting. Management financial reporting fraud is less likely when the audit committee with excellent financial knowledge is involved because they may challenge management's assumptions, raise crucial issues, and give auditors helpful suggestions. Financial literacy and competence were found to positively correlate with the quality of financial reporting by (Defond, Hann, & Hu, 2005). Additionally, financial literacy and the calibre of financial reporting are both connected, as argued by Carcello, Hollingsworth, Klein, and Neal (2006).

#### *2.3.4(d) Audit committee meeting frequency*

The frequency of audit committee meeting pertains to how often, during the accounting year, the committee convenes to address matters related to

financial reporting, internal controls, and audit processes. Effective oversight highly depends on the quantity and quality of audit committee sessions. Regular, organized meetings provide you the chance to have in-depth conversations, analyze financial statements, and communicate with auditors. According to DHU & HBP (2019), more frequent meetings result in lower material misstatement and higher-quality financial reporting.

With an independent audit committee, Internal controls may be evaluated critically, possible risks can be identified, and the efficacy of internal controls can be determined by audit committees made up of impartial individuals with financial competence. A significant correlation between financial knowledge on audit committees and better financial reporting quality was discovered by Francis et al. 2005 study.

Audit committees act as a check and balance mechanism, overseeing management's financial reporting activities. Studies by Carcello et al (2005) and Bedard et al (2006) reveal a positive correlation between strong audit

committee independence and improved financial reporting quality. Independent audit committees are better positioned to identify and avert fraudulent financial information. A study by DeZoort et al (2002) suggests that independent audit committees enhance the chance of detection of fraud, thereby improving financial reporting quality.

## **2.4 LITERATURE REVIEW ON VARIABLES**

### **2.4.1 Audit Committee Independence and Financial Reporting Quality**

The independence of the audit committee's members in carrying out their duties is referred to as their freedom and objectivity. The lack of conflicts of interest that can impair the committee's capacity to reach objective conclusions and decisions about financial reporting is referred to as independence.

Audit committee independence indicates that its members have no connection to a business's management and that none of the majority shareholders, officers, or executive directors of the firm have any influence

on the audit committee. The overall consensus was that an independent audit committee ensured effective management oversight of financial concerns, ensuring user confidence in the financial reporting. Due to independence concerns, the audit committee received a great deal of the blame and criticism for the accounting errors (Pergola, 2005).

Sawyer, Dittenhofer, and Scheiner (2003) opined that Directors from within the organization who serve on audit committees could be impacted by their involvement in the identified issues directly. According to the American Institute of Certified Public Accountants (AICPA) (1978) and Braiotta Jr. (2007), they outlined that an audit committee must be a permanent committee of the board primarily consisting of directors who are not officers or outside directors, specifically non-executive directors, to guarantee the independence of these committees.

A committee that is impartial to the executive hence lessens the agency issue between executives and other shareholders. When examining the financial

reporting's openness, the committee's independence makes it more impartial. Furthermore, Kamarudin, Wan Ismail, and Ibrahim (2009) discover a negative correlation between audit committee independence and income management. This demonstrates that the independence of the audit committee positively affects discretionary accruals and restatement.

Additionally, Kamarudin, Wan Ismail, and Ibrahim (2009) discover a negative correlation between income management and AC independence. This demonstrates that the independence of the AC has a favourable impact on restatement and discretionary accruals.

Iskander Rahmat (2007) held the opinion that a totally independent audit committee was a highly active tool against poor financial reporting quality.

Xie, Davidson, and Dadalt (2003) said that a more independent audit committee is claimed to ensure greater control. It was therefore reasonable to assume that the independence of an audit committee would be unfavorably correlated with the practice of earnings management. Other

studies' findings varied, but Lin and Yang's (2006) research demonstrated that there was no connection between the independence of an audit committee's members and the caliber of financial reporting. Xie, Davidson, and Dadalt (2003) found no connection between an audit committee and anything else. This therefore means, strong financial reporting quality resulted from the audit committee's independence, which decreased the likelihood of financial statement fraud.

#### **2.4.2 Audit Committee size and Financial Reporting Quality**

The complexity and size of the organization, industry-specific rules, the knowledge and accessibility of competent persons, and other variables all affect the optimal size of an audit committee. The number of the audit committee member is a crucial component in improving the quality of financial disclosure since larger audit committees are likely to benefit from a greater knowledge base and more diverse experience, enabling them to carry out their duties more successfully (Vafeas, 2005). The data supporting the

link between audit committee size and financial reporting quality offered by empirical research is quite intriguing. The audit committee size and audit fee is positively correlated, according to earlier research (such as Abbott et al., 2004; Vafeas and Waagelein, 2009; Hoitash and Hoitash, 2009; Zaman et al., 2011).

While some say that smaller committees are more effective, flexible, and focused, others counter those larger committees can offer a variety of viewpoints, greater knowledge, and better supervision. According to Herdjiono and Sari (2017), the features of the committee, such as its size, have some bearing on the efficiency of audit committee. Vicknair, Hickman, and Carnes (1993) also stated that the audit committee has to have enough members and resources to fulfill its obligations in order to be effective in regulating and monitoring managers' behaviour. Whereas, previous research like Boo and Sharma, (2008), opined that higher the number of audit

committees member increase, the higher the probability of substantial misstatement.

Resource dependence theory identified the size of the audit committee as a key element that raises financial reporting quality. Higher number audit committee members are in fact more likely to act as authoritative entities that perform efficient monitoring tasks. Dhaliwal, Naiker, and Navissi (2010) demonstrate that the number of the audit committee members raises the quality of financial disclosure due to the variety of knowledge and expertise they have in common. The analysis of audit committee features and voluntary financial disclosure in Indonesia by Setiany, Hartoko, Suhardjanto, and Honggowati (2017) demonstrates that the size of the audit committee has a favourable, substantial impact on financial reporting. According to Mohammed, Ahmed, and Ji (2017), there is a substantial positive correlation between the size of the audit committee and accounting conservatism. As

opposed to this, other researchers (Hasan et al., 2020) found no connection between financial reporting quality and audit committee size.

Hoitash and Hoitash (2009) also found that there is an inverse relationship between the audit committee's size and the non-audit fee ratio, underscoring the importance of audit committee size in safeguarding auditor independence.

Lin et al. (2006) emphasize that larger audit committees appear to enhance the quality of earnings by reducing the likelihood of restating financial statements and thereby providing more oversight of the financial reporting process. Furthermore, studies by Yang and Krishnan (2006) and Kent et al. (2010) identified a negative correlation between the audit committee's size and earnings management. Multiple investigations, including those conducted by O'Sullivan (1999), Abbott et al. (2005), and Baxter and Cotter (2008), have revealed no link between the size of the audit committee and financial reporting indicators.

The usefulness of an audit committee in guaranteeing accurate financial reporting is not just dependent on its number. A smaller committee can offer agility and concentration while a bigger committee may give access to a wider spectrum of experience. To attain the highest level of financial reporting quality, organizations should carefully analyze their specific circumstances and find the ideal balance between committee size and makeup. The knowledge, independence, participation, and dedication of the committee's members, rather than the committee's number, are what genuinely improve the accuracy of financial reporting.

### **2.4.3 Audit Committee Financial Expertise and Financial Reporting Quality**

An essential quality of the audit committee is financial literacy. A committee should have a reasonable level of financial literacy in order to monitor a business' financial report and control procedures. The audit committee must

guarantee that CEOs are held responsible, and to do this, the members must have a solid foundation in accounting expertise and have a complete understanding of corporate reporting, which will enhance the standard of financial reporting and compliance with regulatory requirements (Agrawal & Chadha, 2005).

Audit committees are essential in the area of corporate governance for preserving the accuracy and openness of financial reporting. Because financial transactions and laws are becoming more complicated, it is crucial that audit committee members have sound financial judgment.

The audit committee serves as a crucial conduit between the board of directors, management, and outside auditors. Enhancing financial reporting quality and ensuring compliance with pertinent accounting standards and regulatory requirements are its main responsibilities. Audit committees promote investor trust by minimizing the risk of mistakes, fraud, and misstatements during the financial reporting process. Strong financial

expertise can help audit committees better understand complicated financial transactions and evaluate their effects on financial statements. Assuring adherence to pertinent standards and disclosure obligations, they can efficiently assess the propriety of accounting practices (Khan, 2017).

When audit committee has financial knowledge, they are able to protect assets and stop fraud, audit committees must evaluate and track the effectiveness of internal controls. Members of the committee who are adept with money can see possible control flaws and suggest the necessary corrective measures. They help to put in place strong internal control systems that improve the accuracy of financial reporting (Muller et al., 2018). The efficacy of the audit committee in monitoring the financial reporting process is significantly influenced by the experience and skill of its members. According to Vafeas and Waegelien (2007), governance knowledge is crucial for preserving audit quality. They also found a strong and positive correlation between governance competence and audit fee. They refer to the

experience of the audit committee members working on other audit committees as their governance competence. Additionally, Furthermore, it has been argued that audit committee members with financial expertise are better equipped to handle the intricacies of financial reporting compared to those without such knowledge (Dezoort and Salterio, 2001; Davidson et al., 2004). This has led to calls for improved oversight of the financial reporting process (Engel et al., 2010).

According to Bhagat, Bolton, and Subramanian's (2017) research, companies with audit committee members that are financially literate have superior financial reporting quality, which is shown by fewer occurrences of restatements and major misstatements. Mala and Chandrakumara (2019) found a link between the audit committee's financial understanding and the promptness of financial reporting, indicating that well-informed committees hasten the disclosure of correct financial data. According to Kassem, Higson, and Benson (2021), audit committees with financial expertise are more

likely to spot profits manipulation, which enhances the accuracy of financial reporting.

Academic research has demonstrated a strong link between the financial expertise of the audit committee and the caliber of financial reporting. Audit committees can more effectively carry out their oversight duties and guarantee the accuracy and openness of financial accounts by having members with high financial acumen. The empirical data shows that financial expertise among committee members is related to fewer restatement cases, prompt reporting, and improved detection of earnings manipulation. Organizations should give priority to the audit committee's composition, making sure that they have the necessary financial knowledge, given the significance of financial reporting in capital markets. For audit committee members to stay current with complicated financial transactions and increasing accounting rules, ongoing education and training are also

crucial. Companies may boost corporate governance, increase investor trust, and improve overall financial reporting integrity by doing this.

#### **2.4.4 Audit Committee Meeting Frequency and Financial Reporting Quality**

Numerous researches have looked at the connection between the frequency of audit committee meetings and the caliber of financial reporting. A research by Bedard et al., (2014) examined a sample of U.S. companies and discovered that companies with more audit committee meetings had better financial reporting. The researchers made the case that regular meetings promoted increased debate and scrutiny, which in turn led to better oversight of the activities involved in financial reporting.

The audit committees' degree of engagement is crucial for reviewing and keeping an eye on the financial reporting process. According to Song and Windram (2004), the frequency of audit committee meetings is a critical

factor in determining its efficacy. It also plays a significant role in addressing significant agency issues related to the vested management power through increased ownership (Sharma et al., 2009). Xie, Davidson, and DaDalt (2003), also opined that frequency of audit meetings represents the efficiency of their monitoring, and the literature utilises meeting frequency as a proxy to gauge audit committee activity.

## **2.5 REVIEW OF PREVIOUS STUDIES**

Scholars Oji, Ofoegbu, and Grace (2017) carried out an investigation on the effect of audit committee qualities on financial reporting of listed companies in Nigeria focusing on three audit committee characteristics: independence, financial expertise and monitoring function. According to this study, the independence of the audit committee has a big impact on financial reporting which is in line the findings made by (Appah & Emeh 2013). In order to collect the necessary information for hypothesis testing, the study employed structured questionnaires that were distributed to a sample of 145

administrative staff members of chosen listed firms in Rivers State, Nigeria. The Ordinary Least Square Regression Analysis was the statistical method used to test and analyze the hypotheses in order to precisely determine the impact of the dependent and independent variables. The analysis' findings revealed that the independence of the audit committee, the qualifications of its members, and its monitoring role had a substantial and favorable impact on the financial reporting of listed companies in Nigeria. The study also indicated that the qualifications of Audit Committee members have a substantial impact on financial reporting as members should be familiar with the essential accounting principles and policies implemented by management. Similarly, the audit committee's monitoring role has a big impact on financial reporting.

Masmoudi (2021) undertook a study on the effect of audit committee characteristics on financial reporting in Netherland centering on audit committee independence, audit committee size, presence of financial expert

in the audit committee and frequency of meeting. In order to accomplish its research goal, this study use the ordinary least squares (OLS) regression method to analyze data gathered from 90 publicly traded firms between 2010 and 2019 in the Dutch environment. According to the findings, actual earnings management and audit committee characteristics are statistically related. The study concluded that financial reporting quality is strongly correlated with the size, frequency, and participation of the audit committee, as well as with the independence of its members and the presence of a financial expert.

Moses et al (2016) research took a different route as he focused on the effect on audit committee characteristics on financial reporting quality of quoted Nigerian banks. The study was done to statistically investigate the impact of audit committee features on the caliber of financial reporting in listed Nigerian banks. As of December 31, 2014, the study examined documented data from fifteen annual reports and accounts and financial statements of the

banks whose stocks are quoted on the Nigerian Stock Exchange. Correlation research design is the method used in this dissertation. Jones' (1991) modified model was used which offered a measure of earnings management, a symbol for the accuracy of financial reporting. The study's findings showed that the independence of the audit committee had no discernible impact on the management of earnings in publicly traded Nigerian banks. The study finds that Audit Committee independence has no significant effect on earnings management in quoted Nigerian Banks during the period covered by the study, and uses the quality of financial reporting of banks whose shares are traded in the Nigeria Stock Exchange from 2010 to 2014 as the response variable.

The degree of the connection between the audit committee and financial reporting quality was explored by Umbong and Ibenichuka (2017). 2011 to 2014 is the study period. The size is half that of the food and beverage companies listed on the Nigerian stock market. The study tested the degree

of financial reporting quality using a modified Jones model from 1991, and it utilized OLS to evaluate the data. The data indicate that the size of the audit has a negative, statistically significant impact on the quality of financial reporting. Additional data imply that as the size of the audit grows its impact on the quality of financial reporting decreases.

In their study, Salawu, Okanachi, Yayaha, and Dekki (2017) looked at how listed consumer goods firms in Nigeria's financial reporting quality from 2006 to 2016. Twenty-three (23) enterprises under the heading of consumer products make up the study's population, which is based on a longitudinal panel research methodology. Since the population is not large, the study uses census sampling methodology. The annual reports of the sampled businesses were used as a secondary source of data.

Madawaki and Amran (2013) study compares the financial reporting quality of a sample of Nigerian publicly traded companies before and after corporate governance law imposed new rules for audit committees in 2003 to

determine if audit committees are related to better financial reporting quality. The descriptive statistics used to collect the data for the independent variables revealed that 84% of the companies have an independent audit committee chair. However, this discovery runs counter to Yang and Krishnan's (2005) study. The size of the audit committee and the accuracy of the financial reporting were also shown to have no significant association in this research. The findings do, however, show a significantly favorable correlation between independent audit committee chairs, audit committee members with accounting and financial experience, and higher-quality financial reporting.

The study by Kabiye et al. (2016) aimed to investigate how the audit committee's characteristics affect the quality of financial reporting for Nigerian listed companies. We conducted multivariate regression analysis with a sample size of 101 and firms-year longitudinal panels of 505 observations of non-financial listed corporations on the Nigerian Stock

Exchange from 2010 to 2014. In order to evaluate the effectiveness of financial reporting monitoring systems, we employ the McNicholas (2002) model. The results show that the firm age and size control variables are statistically significant. The relationship between audit committee share ownership and financial knowledge is positive and statistically significant, demonstrating that audit committee monitoring practises have an effect on the precision of the financial statements of listed nonfinancial firms in Nigeria.

The influence of the audit committee on the accuracy of financial reporting in listed companies on the Nigeria Stock Exchange is examined in the study by Eyenubo et al., (2017). The link between the audit committee and the accuracy of financial reporting is examined in this study using a conceptual approach on historical data in the form of annual reports of listed businesses. It also looks at the function of the audit committee in regard to the best codes of corporate governance for financial reporting quality and the

connection between the audit committee's independence, size, thoroughness, and skill. It offers the first evidence on the establishment of audit committees, their characteristics, and the caliber of financial reporting in Nigeria. As a result, it may have implications for the regulators and policymakers of the Nigerian capital market in terms of enhancing the efficacy of audit committee listing regulations. This study demonstrates how the Audit Committee in Nigeria is viewed through a very specific lens.

While the current study concentrated on the impact of audit committees on the quality of financial reporting in audit committee characteristics in Nigeria, Gunes and Alilgan's (2016) study focused on the effectiveness of audit committees on bank performance in the UK and Turkish banks. In a research published in 2016, Gunes and Atilgan compared the efficacy of the audit committees in British and Turkish banks. Using some of the key bank performance metrics, including return on asset (ROA), return on equity (ROE), and net interest margin in the Turkish and UK banks between 2006

and 2010, the study sought to assess the importance of competent audit committees on bank performance. The study suggests adding more non-executive members because the results showed that for Turkish banks, ROA and ROE had a negative correlation with independent board of directors and years of committee experience while a positive correlation with education level.

Thesis by Ghafran (2013) looked at a large sample of UK corporations from 2007 to 2010 to determine the effect of audit committee features on financial reporting quality. By examining the audit quality and profits caliber of the businesses, the concept of financial reporting quality is evaluated. The audit fee-to-non-audit fee ratio is used in this study as a proxy for audit quality, while accruals-based earnings management models are used as a proxy for earnings quality. According to the results of the multivariate research, audit committee meetings and financial knowledge have a considerable favorable effect on audit payment. This study also reveals that the non-audit fee ratio

has negative and significant impact on audit committee member financial competence, indicating that these members are strongly in favor of concerns pertaining to auditor independence. This study shows generally consistent evidence that the quality of reported earnings is significantly improved by audit committees that meet three or more times year and are completely independent.

Kantudu and Samalia (2015) concentrated on the board composition, independence of the audit committee, and financial reporting standards of Nigerian oil marketing companies. Qualitative features of financial statements served as a representation of financial reporting quality. The sampling oil marketing businesses' audited annual reports and accounts for the twelve years from 2000 to 2011 were used to gather data for the study. State version 12.0 was used to analyze the data using multiple regressions. Power separation, independent directors, management shareholdings, and independent audit committees have all been shown to be major indicators of

monitoring corporations in Nigeria. It was advised that the company's board should appoint independent directors based on their prior performance history rather than placing special emphasis on the proportion of independent directors to total board members.

Ifeanyichukwu (2019) study specifically looked at how the independence of the audit committee affected the usefulness and applicability of accounting information as well as earnings management. Information was gathered from 15 publicly traded manufacturers of consumer products. From 2006 through 2016, eleven years of secondary data were retrieved. Since the data points consist of equal time series for each cross-section of the sampled businesses, a balanced panel data analysis technique was adopted. The analysis's findings indicate that there is a significant positive relationship between board independence and earnings management, a significant negative relationship between audit committee size and accounting value relevance of earnings, a significant positive relationship between board independence and

value relevance of earnings, and that there is a negative relationship between these variables. Accordingly, the study draws the conclusion that there is a substantial correlation between the audit committee's qualities and the accuracy of the financial reporting of publicly traded manufacturers of consumer products. We suggest that the Audit Committee should be very independent.

The influence of audit committee characteristics on the financial performance of firms listed on the Nigerian Stock Exchange was also studied by Wakaba (2014). The purpose of the study was to determine the influence of audit committee attributes on the achievements of listed companies on the Nigerian Stock Exchange. The study's precise goals were to determine how audit committee diversity, gender, and size affected business performance. Agency theory and institutional theory were both applied in the investigation. It used an explanatory theory methodology and examined companies that were listed on the Nigerian Stock Exchange

between 2006 and 2011. Data analysis employed descriptive statistics including means, standard deviation, frequencies, and percentages. Additionally, multiple regressions was utilised since it allowed for the estimation of the effects of several independent factors on a single dependent variable. The results of the research indicated that the audit committee's size, composition, experience, and gender diversity all significantly impacted the performance of the company. The report suggested, among other things, that legislative regulations be followed. The purpose of the current study was to determine how audit committee qualities in Nigeria affected the caliber of financial reporting.

Abubakar et al.(2022) looked at the factors that affected the audit report delays for pharmaceutical firms listed in Nigeria between 2011 and 2020. Assessing the impact of audit committee meeting frequency, size, independence, and audit financial knowledge on the audit report lag of listed pharmaceutical firms in Nigeria was one of the particular goals. The

population of the study is eight firms whose shares were listed on the Nigerian Stock Exchange as of December 31, 2020. The study uses an ex-post facto research approach. The annual reports and accounts of the sampled firms were utilized as a secondary source of data collecting to compile the data. Descriptive statistics and Poisson regression were used to evaluate data gathered from the annual reports and financial statements. The results showed that the size of the audit committee has a negative insignificant effect on financial reporting delay, the audit meeting has a positive significant effect on financial reporting delay, the audit independence has a positive insignificant influence on financial reporting delay, and the audit financial expertise has a positive and significant influence on financial reporting delay.

## **2.6 THEORETICAL FRAMEWORK**

This section concentrated on hypotheses that sought to explain the origins and progression of the variables under consideration. This study is founded on a variety of theoretical stances that were employed to explain the connection between financial reporting and audit committee characteristics; the agency theory and stewardship theory.

### **2.6.1 The Agency Theory**

Agency theory is a well-known framework for examining the interactions between shareholders and management. It sheds light on the interactions between principals (shareholders) and agents (management), as well as any potential conflicts of interest that may arise as an outcome of knowledge asymmetries and personal gain.

According to the concept of agency theory, shareholders and managers may have conflicts of interest since they have different goals, risk tolerances, and time horizons. Shareholders aim to increase their wealth through dividend

payments and share value growth, whereas managers may put personal objectives, job security, or pursuing their own agendas ahead of the interests of the company. Hence, principals' often lack reason to believe in their agents. To address these issues, they will put in place measures that harmonise their objectives and limit the potential for knowledge asymmetries and unscrupulous conduct.

The premise of agency theory is that principals, or shareholders, and agents, or managers, have a fundamental conflict of interest. According to this theory, company directors typically have more interest in utilizing the company for their own gain than in maximizing returns for shareholders (Lane et al., 1998; Davidson et al., 2004). To protect their interests, shareholders must implement strict oversight controls due to the possibility that managers and managers may have very different goals. As a result, mechanisms like the board and the AC are created to keep an eye on managers and deter opportunistic behavior (Beasley et al., 2009).

In order to address the issue arising from the agency connection, according to Dezoort, Hermanson, Archambeault, and Reed (2002), the board should be responsible for supervising managers, approving entity plans, and examining control structures. The board often employs a team of competent specialists to supervise operations of management on its behalf. Under the corporate governance structure, the board delegated part of its oversight duties and obligations to the Audit Committee.

By enabling principals to oversee management, the audit committee is one of several techniques intended to reduce conflicts of interest and their effects on companies and, in turn, principals (Rezaee, 2009; Liao and Hsu, 2013). Abed and Al-Najjar (2016) explain that they lower agency costs by monitoring the actions of management and resolving the issues brought on by information asymmetry (Bukit and Iskandar, 2009), which Pincus et al. (1989) found to be a key factor in the construction of audit committee. Henry (2010) draws the conclusion that internal governance and external

shareholders both function as agency-mitigating mechanisms, in contrast to McKnight and Weir's (2009) claim that corporate governance systems like the audit committee minimize agency costs.

The audit committee serves as a conduit between management and shareholders by assisting in finding a balance between their respective interests. According to Herzig and Watrin (1995), the creation of audit committees was a response to information asymmetries between a shareholders and management. An Audit committee's main goal is to solve agency issues by keeping an eye on management's actions and checking the accuracy of financial reporting (Demsetz and Lehn 1985). Therefore, strengthening the audit committees will result in higher-quality of financial reporting.

In order to better understand how audit committee chairmen, executives, independent auditors, and internal auditors see agency conflict, Krishnamoorthy and Wright (2004) conducted a survey. They discovered

indications that the audit committee and management are in an agency conflict when it comes to financial transparency and discretionary accounting practices. However, internal and external auditors' perspectives on matters impacting accounting decisions differed from those of audit committee chairmen.

In accordance with agency theory, timely resolution of any conflicts of interest will result in accurate financial reporting; a function that audit committees can do well. The theory's underlying premise is that agents should provide their stewardship to the principle, but it is constrained by the conflict of interest that exists between the agent and the principal.

### **2.6.2 Stakeholder Theory**

Stakeholder theory is more interested in a broader range of constituents than agency theory, which focuses largely on the interaction between owners (principals) and agents (managers) (Mallin, 2010). Any person or organization that has the potential to influence or be influenced by the

accomplishment of an organization's goals is considered a stakeholder (Mohiuddin & Karbbari, 2010). Therefore, stakeholders include the general public (including the government), as well as shareholders, workers, suppliers, consumers, creditors, and communities close to the entity's operations. Stakeholder model proponents emphasize that organizations require input from a variety of groups in order to function effectively. They also emphasize that organizations also require a supportive social environment and a stable commercial and political climate. The corporation may be impacted both in its macro and micro business environment (Clement, 2005). Therefore, managers should strive to consider all individuals with a stake in the company's operation and those who may have an influence on or be an impact of its success or failure while making choices (Stovall et al., 2004). Stakeholder theorists think that by recognizing the concerns of all stakeholders not only aligns with ethical responsibilities but also has the potential to enhance profitability for businesses by striving to meet the

reasonable expectations of these diverse groups. (Ayuso and Argandoa, 2009).

The theory emphasizes the interests of several groups and questions whether it is possible to prioritize the interests of one group over another (Jones & Wicks, 1999). Managers must use their good judgment and best efforts to secure advantages for all stakeholders, according to Donaldson and Preston (1995). The board cannot neglect its obligations to safeguard the interests of stakeholders (Wang & Dudley, 1992). According to Hillman, Keim, and Luce (2001), the inclusion of interested parties on the board only enhances their interactions and effectiveness. Better corporate governance practices are guaranteed by an engaged audit committee, which ultimately benefits all stakeholders. Dezoort, Hermanson, and Archambeault's (2002) concept of an active audit committee placed a strong focus on the interests of the stakeholders.

In light of the two theories previously discussed, stakeholders' perspective identifies the advantages for all stakeholders while the agency theory exclusively takes the interests of shareholders into account. To safeguard shareholder's interests and mitigate the conflict of interests between both parties, a proactive audit committee plays a crucial role in strengthening stronger corporate governance procedures in businesses by means of thorough financial reporting. Therefore, agency theory will be used as the research's foundation.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter presents the methodology used for collecting the data for the study. It gives details about the population and sampling techniques used for the research. Put simply, the methodology will include areas such as, research design, sampling size, types of data and data collection method. The explanation of the study's research design was followed by discussions of the demographic and sample at the beginning of the chapter. It offered the study's model.

#### **3.2 THE RESEARCH DESIGN**

A correlational research design was adopted in this study. Correlational research design investigates relationship between variables without control and manipulations. This will reflect the strength and direction of

the relationship between the effect of audit characteristics and the quality of financial reporting as the direction of the correlation of these variables can either be positive or negative.

As this approach is effective and consistent with the goal of the study, the research will use several regression approaches to estimate the relationship as well as the impact of one variable on another. The study's multi-collinearity test will be run using the variance inflation factor and tolerance value.

### **3.3 THE POPULATION AND SAMPLING**

The hypothesis was based on data collected from the annual reports and financial statements of the companies under examination. The study encompassed all twenty-one consumer goods companies that are publicly listed on the Nigerian stock exchange, representing the entire population of interest.

Using the Taro Yamane formula to derive sample size:

$$n = \frac{N}{1 + Ne^2}$$

n= Sample size

N= Population size

e= Margin of Error

At 95% confidence level:

$$n = \frac{21}{1 + 21(0.05)^2}$$

n= 19.952 ~ 20. Sample size is approximately 20.

At 99% confidence level:

$$n = \frac{21}{1 + 21(0.01)^2}$$

n= 20.998 ~ 21. Sample size is approximately 21.

Therefore, the sample size will be all twenty-one (21) quoted consumer goods.

### **3.4 SOURCES OF DATA**

The analysis relies on secondary data obtained from various sources, including the annual reports of companies, the Nigerian Deposit Insurance Corporation (NDIC), the Central Bank of Nigeria (CBN) bulletin, and the Nigerian Stock Exchange market's fact book, chosen for their higher level of accuracy and reliability from 2018 to 2022.

### **3.5 MODEL SPECIFICATION AND DATA ANALYSIS**

This study's model formulation is based on econometric multiple regression models. Multiple regressions provide an economic explanation for the heterogeneity in the link between audit committee characteristics and financial reporting. The dependent variable will be assumed to be a linear function of the independent variables.

### 3.5.1 MODEL SPECIFICATION

The study adopted the model of Soyemi and Olawale (2019) specified as follows:

$$FRQ = f(ACINP, ACCOM, ACSIZ, ACMET) \dots \dots \dots (1)$$

$$FRQ = \beta_0 + \beta_1 ACINP_{it} + \beta_2 ACCOM_{it} + \beta_3 ACSIZ_{it} + \beta_4 ACMET + \epsilon_{it} \dots \dots \dots (2)$$

Where:

FRQ= Financial reporting quality

ACINP= Audit committee independence of firm in time t

ACCOM= Audit committee competence of firm in time t

ACSIZ= Audit committee size of firm in time t

ACMET= Audit committee meetings of firm in time t

$\varepsilon$ = other factors not captured by the model

### **3.5.2 METHOD OF DATA ANALYSIS**

In this study, the significant association between audit firm characteristics and quality of financial reporting was investigated using ordinary least square

(OLS) regression approaches. To check for model misspecification, the study also used descriptive statistics.

### 3.6 OPERATIONALISATION OF VARIABLES

<b>Variables</b>	<b>Definition and Measurement</b>	<b>Construct validity</b>
Financial reporting quality (FRQ)	Measured by absolute values of the residuals.	Ifeanyichukwu, and Ohaka, (2019)
Audit committee independence (ACINP)	Percentage of non-execute directors in the audit committee to the total number of the audit committee	Barno, (2017)
Audit committee competence (financial expertise), (ACCOM)	Percentage of number of audit committee members with financial knowledge or some sort of accounting certificate to the total number of audit committee	Kibiya, (2016)
Audit committee size (ACSIZ)	Measured as the total number of audit committee members	Kibiya,(2016)
Audit committee meetings (ACMET)	Number of times member of committee meets per year	Salawu, Okpanachi, Yayaha and Dikki (2017)

The dependent variable, which is financial reporting quality, is measured by discretionary accruals using Saraworawanich(2011).

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 INTRODUCTION**

This section deals with the presentation and interpretation of data derived from regression analysis, correlation analysis, and diagnostic analysis.

#### **4.2 PRESENTATION OF DATA**

##### **4.2.1 Descriptive Analysis**

Table 1 gives details on the dependent and independent variables in terms of mean, minimum, maximum and standard deviation.

**Table 1: Descriptive statistics**

<i>SUMMARY</i>	<i>FRQ</i>	<i>ACCOM</i>	<i>ACNIP</i>	<i>ACSIZ</i>	<i>ACMET</i>
Mean	35.58619	8.114286	14.62857	5.085714	5.92381
Standard Error	4.042111	0.380455	1.433013	0.129887	0.171556
Median	18.66	6	7	5	6
Mode	17.2	6	5	6	7
Standard Deviatric	41.41931	3.898506	14.68402	1.33095	1.757923
Sample Variance	1715.559	15.19835	215.6203	1.771429	3.090293
Kurtosis	2.229372	-1.41855	4.574054	-1.11484	0.752813
Skewness	1.736134	0.329199	2.045509	-0.13487	0.085719
Range	187.83	11	74	4	9
Minimum	1.7	3	3	3	2
Maximum	189.53	14	77	7	11
Sum	3736.55	852	1536	534	622
Count	105	105	105	105	105

SOURCE: AUTHORS COMPUATION (2023) E-VIEWS 9.0

The financial reporting quality (FRQ), a measure that is the inverse of absolute discretionary accruals for customer goods firms, has an average value of 35.58619, a standard deviation of 41.41931, and a minimum value of 1.7 and maximum value 189.53, according to the empirical data in Table 1. The sample firms' discretionary accruals had an absolute value of that

much, with a mean of 35% and a standard deviation of 43%. This shows that there is a significant deviation from the mean among consumer products companies.

Table 1 above also shows the audit committee competence (ACCOM) to have a mean of 8.114286 and a standard deviation of 3.898506. This means the average composition of audit committee with financial expertise is 81% with a standard deviation of 38%. This suggests that a sizable portion of the audit committee is capable and knowledgeable enough about finances to perform their duties well.

Audit committee independence (ACINP) has a mean value of 14.62857 and a standard deviation of 14.68402, according to the descriptive data from table 1 above. This indicates that 14% of the audit committee's members are independent directors on average. 3 and 77 are the minimum and maximum values, respectively. Accordingly, the ratio of independent audit committee members is 3% for the smallest and 77% for the largest. This indicates that

not all businesses adhere to CAMA's recommendations and requirements that at least one member have financial understanding.

For audit committee size (ACSIZ), the table shows a mean of 5.085714 and a standard deviation of 1.33095. This implies that the sample firms audit committee has a member of approximately 5 on an average with a standard deviation of approximately 1. The table also shows a minimum value 3 and a maximum value of 6. This is to say overall that not all firms comply with the requirement of CAMA to have 6 members on the audit committee.

The descriptive analysis shown in table 1 indicates that the mean value of audit committee meetings (ACMET) is 5.92381 with a standard deviation of 1.757923. This means the average number of times the audit committee of sample firms hold meeting in a year is approximately 6.

## 4.2.2 CORRELATION ANALYSIS

The correlation between the dependent variable in question and each of the variables which are not dependent as well as between the independent variables is displayed in the correlation analysis below.

**Table 2: Correlation Matric**

	<i>FRQ</i>	<i>ACCOM</i>	<i>ACINP</i>	<i>ACSIZ</i>	<i>ACMET</i>
FRQ	1				
ACCOM	0.434974	1			
ACINP	0.544252	0.576371	1		
ACSIZ	0.024879	-0.33918	-0.18925	1	
ACMET	0.197704	-0.19935	0.246976	0.393235	1

SOURCE: AUTHORS COMPUATION (2023) E-VIEWS 9.0

The correlations between the independent factors are shown in Table 2 along with the correlations between the dependent variables. Gujarati (2004) claimed that a correlation value of 0.80 between the independent variables was excessive and that consequently, steps needed to remedy the anomaly in the data. According to the table, the correlation coefficient between the

independent variables is less than 0.80. This implies that multicollinearity does not exist.

Table 2 shows that there is a positive correlation between the dependent financial reporting quality and explanatory variables audit committee competence (ACCOM) with correlation coefficient of 0.434. This therefore means, the independent variable audit committee competence move in the same direction with the dependent variable financial reporting quality. The audit committee competence has a positive correlation with financial reporting quality and has a significant explanatory power to financial reporting quality. This is in line with the findings of Kabiye et al (2016) and Oji, Ofoegbu, and Grace (2017).

Table 2 also shows that there is a positive correlation between the dependent variable; financial reporting (FRQ) and the independent variable; audit committee independence (ACINP) with a correlation coefficient of 0.544. This indicates that the audit committee independence and financial reporting

quality move in the same direction. While this is the case, audit committee independence is shown to also have significant impact on the quality of financial reporting. This is in line with the findings of Masmoudi, (2021) whereas it stands in contrast with the findings of Moses et al, (2016).

From the correlation matrix above, it is shown that the variable audit committee size has a weak positive correlation with financial reporting quality with the correlation coefficient of 0.024. This suggests that audit committee size move in the same direction with financial reporting quality though not strongly. While audit committee size has a positive correlation with financial reporting quality, it does not have a significant explanatory power for financial reporting quality. This is in line with the study and result of Wakaba (2014).

Table 1 show that audit committee meeting frequency has a weak positive correlation with financial reporting quality with the coefficient of 0.197. This means that both the audit committee frequency of meetings and

financial reporting quality move in the same direction, though the association is weak. Also, while the audit committee meeting frequency has a positive correlation, it has no significant impact on the financial reporting quality of listed consumer goods companies in Nigeria.

#### **4.2.3 DIAGNOSTIC ANALYSIS**

Table 4(four) shows tests carried out to ascertain whether the data used for analysis is reliable.

**Table 3: Diagnostic Test**

<b>Test</b>	<b>p-value</b>	<b>Conclusion</b>
ADF	0.003	No Unit Root
Breusch-Pagan	0.0000	Heteroscedasticity present
Breusch-Pagan LM	0.231	No Cross-Sectional dependence
Breusch-Godfrey	0.0000	No Serial Correlation

SOURCE: AUTHORS COMPUTATION (2023) E-VIEWS 9.0

Table 3 shows ADF Test (Augmented Dickey-Fuller Test) with a p-value of 0.003 which is less than the common significance level of 0.05. Therefore, the null hypothesis will typically be rejected. This suggests that there is

evidence to conclude that the data does not have a unit root, indicating that it is stationary.

Table 3 also shows the Breusch-Pagan Test with a p-value of 0.0000 which is very low. This indicates strong evidence against the null hypothesis of homoscedasticity (constant variance of errors). Therefore, concluding that there is heteroscedasticity present in the data, meaning that the variance of the error term in the regression model is not constant across different values of the independent variables.

The Breusch-Pagan LM Test with a p-value of 0.231 which is greater than the common significance level of 0.05. The test suggests that there is no cross-sectional dependence in the data, which means that the observations are independent of each other in a cross-sectional context.

According to Table 3, the Breusch-Godfrey Test has a p-value of 0.0000 which is very low. This indicates strong evidence against the null hypothesis of no serial correlation (autocorrelation) in the data. Therefore, concluding that there is serial correlation present which means that the residuals from the regression model are correlated over time.

### 4.3 ANALYSIS OF DATA

**Table 4: Regression summary**

#### SUMMARY OUTPUT

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*Regression Statistics*

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Multiple R	0.597507
R Square	0.357015
Adjusted R Square	0.331296
Standard Error	33.87037
Observations	105

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SOURCE: AUTHORS COMPUTATION (2023) E-VIEWS 9.0

## ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significanc e F</i>
Regression	4	63697.9	15924.4	13.88115	0
Residual	100	114720.	1147.20		
Total	104	178418.			

	<i>Coefficient s</i>	<i>Standar d Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-43.3165	20.0272	-2.16288	0.032934
ACCOM	3.034687	1.16257	2.61030	0.010436
ACINP	1.085594	0.31551	3.44074	0.000847
ACSIZ	4.853255	2.88333	1.68320	0.095454
ACMET	2.315309	2.34916	0.98559	0.326712

SOURCE: AUTHORS COMPUTATION (2023) E-VIEWS 9.0

### **4.3.1 Regression statistics analysis**

Table 4 shows the Multiple R value of 0.597507. Multiple R is the correlation coefficient between the independent variables (audit committee size, independence, financial expertise and frequency of meeting) and the dependent variable (financial reporting quality). It measures the strength and direction of the linear relationship. In this case, it's approximately 0.598, indicating a moderate positive correlation.

Table 4 shows the R square value to be 0.357015. The R Square ( $R^2$ ) is the coefficient of determination, which represents the proportion of the variance in the dependent variable that is explained by the independent variables. Here, about 35.7% of the variance in the dependent variable is explained by the independent variables.

According to table 4, the Adjusted R Square has a value of 0.331296. The Adjusted R square is an adjusted version of R-squared that accounts for the

number of predictors in the model. It's useful for comparing models with different numbers of predictors. An adjusted R-squared of 0.331 suggests that the model explains a significant portion of the variance.

Table 4 shows a Standard Error of 33.87037. Standard error represents the standard deviation of the residuals (the differences between the observed and predicted values). A lower standard error indicates better model fit.

Lastly, the Observations of 105 are the number of data points used in the analysis.

### **4.3.2 ANOVA (Analysis of Variance)**

ANOVA is used to assess the overall statistical significance of the regression model and its individual predictors.

#### *4.3.2(a) ANOVA Regression*

Degrees of Freedom (df): In the context of regression, the degrees of freedom for the regression component represent the number of predictors (independent variables) in the model minus one. In this case, there are four predictors, so df is 4.

Sum of Squares (SS) with value 63697.95 is the sum of squared differences between the predicted values and the mean of the dependent variable. In the case of the regression component, it represents the explained variance by the model.

Mean Square (MS) of 15924.49 is calculated by dividing the SS by its degrees of freedom. Mean square is a measure of variance.

F-statistic (F) has a value of 13.881155. This is the ratio of the mean square for regression to the mean square for residuals (error). It tests whether there is a significant relationship between the independent variables and the dependent variable. A higher F-statistic suggests a stronger relationship.

Significance F is the p-value associated with the F-statistic. In this case, the p-value is extremely low (0), indicating that there is a significant relationship between the independent variables and the dependent variable. This means that the overall regression model is statistically significant.

#### *4.2.3(b) ANOVA Residuals*

The degrees of freedom (df) for the residual component represent the total number of observations minus the number of predictors in the model minus one. In this case, df is 100. The Sum of Squares (SS) is the sum of squared differences between the observed values and the predicted values (residuals). It represents the unexplained variance in the dependent variable. According to table 4, sum of squares for residual value is 114720.2. The Mean Square (MS) value of 1147.202 is calculated by dividing the SS by its degrees of freedom. MS is a measure of the variance of the residuals.

In conclusion, the ANOVA table indicates that the regression model is significant, as evidenced by the exceptionally low p-value (Significance F) for the F-statistic in the regression component. This suggests that at least one of the independent variables is a strong predictor of the dependent variable, and the model as a whole explains a significant portion of the dependent variable's variance.

#### **4.4 TEST OF HYPOTHESIS**

This study sets its decision rule for acceptance of the hypothesis at 5% significance level using the p-value. That is, the null hypothesis will be rejected if the p-value is less than or equal to 0.05 and accepted if it is greater than 0.05.

**H<sub>0</sub><sub>1</sub>** : Audit committee independence has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

From the data in table 4, the audit committee independence identified as ACINP has a p-value of 0.000 which is less than the decision rule of 0.05 which means the null hypothesis is rejected. This therefore shows clearly that the independence of the audit committee has a significant impact on the quality of financial reporting of listed consumer goods companies in Nigeria.

**H0<sub>2</sub>** : Audit committee size has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

From data in table 4, the audit committee size identified as ACSIZ has a p-value of 0.095. This is greater than the decision rule of 0.05 which signifies that null hypothesis is accepted. This means that the variable audit committee size has no significant effect on the quality of financial reporting of listed consumer goods companies in Nigeria.

**H0<sub>3</sub>** : Audit committee financial expertise has no significant effect on the financial reporting quality of listed consumer goods in Nigeria.

According to table 4, the audit committee competence identified as ACCOM has a p-value of 0.010 which is less than the decision rule of 0.05 which therefore means that the null hypothesis is rejected. This result suggest that the financial expertise or better put, the competence of the audit committee has a significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

**H0<sub>4</sub>**: Frequency of audit committee meetings have no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

From the data in table 4, the variable frequency of audit committee meetings is identified as ACMET with the p-value of 0.326 which is greater than the decision rule value of 0.05. This therefore, means that the null hypothesis is accepted which suggests that the variable frequency of audit committee meetings has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

## 4.5 DISCUSSION OF FINDINGS

The "t-statistic" (t-Stat) in regression analysis is a measure of how many standard errors the coefficient estimate is away from zero. It helps to assess whether the estimated coefficient for a particular independent variable is statistically significant or not. Here's an analysis of the t-statistics for the coefficients of independent variables provided in table 4:

The t-statistic for Audit committee competence (ACCOM) is approximately 2.610309. This value is calculated by dividing the coefficient (3.034687) by its standard error (1.162578). The t-statistic for ACCOM is about 2.61 standard errors away from zero. Since the associated p-value is 0.010436 (less than 0.05), it suggests that ACCOM is statistically significant. The coefficient of approximately 3.0347 means that for a one-unit increase in ACCOM, financial reporting quality is expected to increase by 3.0347 units, holding other variables constant.

According to table 4, the t-statistic for ACINP is approximately 3.440742. This value is calculated by dividing the coefficient (1.085594) by its standard error (0.315512). The t-statistic for ACINP is about 3.44 standard errors away from zero. The very low p-value of 0.0008478 suggests that ACINP is highly statistically significant. The coefficient of approximately 1.0856 suggests that one-unit increase in ACINP is associated with an expected increase of approximately 1.0856 units in the financial reporting quality (FRQ), holding other variables constant.

The t-statistic for ACSIZ is approximately 1.683207. This value is calculated by dividing the coefficient (4.853255) by its standard error (2.883337). The t-statistic for ACSIZ is roughly 1.68 standard errors away from zero. However, the associated p-value (0.0954545) is greater than the typical significance level of 0.05, indicating that ACSIZ is not statistically significant in this model. . Its coefficient is approximately 4.8533. A one-unit increase in ACSIZ is associated with an expected increase of

approximately 4.8533 units in the dependent variable, holding other variables constant.

Table 4 shows that the t-statistic for ACMET is approximately 0.98559. This value is calculated by dividing the coefficient (2.315309) by its standard error (2.34916). Its coefficient of approximately 2.3153 means one-unit increase in ACMET is associated with an expected increase of approximately 2.3153 units in the dependent variable, holding other variables constant. The t-statistic for ACMET is about 0.99 standard errors away from zero. With a relatively high p-value of 0.3267129, ACMET is not statistically significant in this model.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This study's objective is to ascertain the significance of audit committee characteristics such as audit committee independence, audit committee size, audit committee meeting frequency and audit committee financial expertise on the financial reporting quality of listed consumer goods companies in Nigeria. This chapter presents the summary of findings, conclusion of findings as well as recommendation.

#### **5.2 SUMMARY OF FINDINGS**

The findings on this study are summarized as follows:

1. Audit committee independence has a positive correlation and significant effect on the financial reporting quality of listed consumer

goods companies in Nigeria. This therefore means that an increase in audit committee independence will lead to higher financial reporting quality of quoted consumer goods companies in Nigeria.

2. Audit committee size has a positive correlation with financial reporting quality but is insignificant to the financial reporting quality of listed consumer goods companies in Nigeria. Although audit committee size is positively correlated with financial reporting quality, it is insignificant which means an increase in audit committee size will have no significant impact on the financial reporting quality of quoted consumer goods companies in Nigeria.
3. Audit committee financial expertise has a positive correlation and significant impact on financial reporting quality of listed consumer goods companies in Nigeria. This therefore means that an increase in audit committee financial expertise will lead to higher financial reporting quality of quoted consumer goods companies in Nigeria.

4. Audit committee meeting frequency has a weak positive correlation and insignificant impact on financial reporting quality of quoted consumer goods companies in Nigeria. Although audit committee financial expertise is positively correlated with financial reporting quality, it is insignificant which means an increase in audit committee meeting frequency will have no significant impact on the financial reporting quality of quoted consumer goods companies in Nigeria.

### **5.3 CONCLUSIONS**

The overall result of this study shows that there is an association between the audit committee characteristics and the financial reporting quality of listed consumer goods companies in Nigeria. More specifically, this study concludes that audit committee size as a variable on its level of significance on the quality of financial reporting is not a major factor or variable to be considered; although there is a positive correlation with financial reporting quality, it has no significant impact.

This study also concludes that audit committee independence as an attribute of the audit committee is an important variable to be considered when there is a need to improve the quality of financial reporting. This is because audit committee independence had the strongest correlation among the other variables considered in the study and also has significant impact on financial reporting quality. Independent directors are seen as the checks and balance mechanism in an organization which ensures that the firm follows the organization's policy and regulations. This therefore reduces financial reporting malpractice.

Audit committee financial expertise is also concluded by this study to have significant impact on the quality of financial reporting quality of listed consumer goods companies in Nigeria. That means the audit committee should have at least one of its members with financial knowledge to enable them carry out their monitoring role effectively and efficiently which ensures financial reporting is of high quality.

Lastly, this study concludes that frequency of meeting has a positive correlation with financial reporting quality but is insignificant to its impact on the quality of financial reporting. That is, though the variable should be considered when aiming to improve the quality of financial reporting, it is not the most important.

#### **5.4 RECOMMENDATION**

The followings are recommended based on the result of the study:

1. The more independent the audit committee is the better. Therefore, this study recommends that the board of directors should ensure that the independent directors of the audit committee make up the larger number of audit committee.
2. Regulatory bodies such as the financial reporting council of Nigeria (FRCN) should ensure that audit committee members have industry experience through necessary training and seminars in order to keep

them up to date on their roles and responsibilities, allowing them to be more effective and efficient in their assignments.

3. CAMA 2020 provided that at least one member of the audit committee be a member of a professional accounting body in Nigeria established by an Act of the National Assembly. This number should be increased to improve the quality of financial reporting. With more expertise on the audit committee, the quality of financial reporting is bound to improve.

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## APPENDICES

**Data on the 21 quoted consumer goods companies in Nigeria from year 2018 to year 2022**

Year	Firm_name	FRQ	ACCOM	ACINP	ACSIZ	ACMET
2018	Cola	22.04	12	5	3	3
2019	Cola	19.29	12	5	3	3
2020	Cola	20.01	12	5	3	3
2021	Cola	18.25	12	5	3	3
2022	Cola	16.08	12	5	4	3
2018	Guinness	15.15	12	7	4	3
2019	Guinness	16.24	12	7	4	3
2020	Guinness	17.17	12	7	6	3
2021	Guinness	15.75	12	7	4	3

2022	Guinness	19.89	12	7	3	3
2018	Nigerian Breweries	27.47	6	15	6	7
2019	Nigerian Breweries	21.02	6	15	5	7
2020	Nigerian Breweries	16.69	6	15	5	7
2021	Nigerian Breweries	17.2	6	15	6	2
2022	Nigerian Breweries	4.55	6	15	6	2
2018	CWAY	10.29	6	17	4	4
2019	CWAY	6.21	6	17	3	6
2020	CWAY	17.2	6	17	3	6
2021	CWAY	1.7	6	17	5	11

2022	CWAY	19.06	6	17	6	11
2018	Dangote	19.6	14	22	6	5
2019	Dangote	18.78	14	22	6	7
2020	Dangote	18.42	14	22	3	7
2021	Dangote	19.96	14	22	4	7
2022	Dangote	23.31	14	22	5	8
2018	Nutri C	23.63	14	22	5	8
2019	Nutri C	23.78	14	22	6	5
2020	Nutri C	22.39	14	22	5	5
2021	Nutri C	20.41	14	22	5	5
2022	Nutri C	16.87	14	22	5	6
2018	Nestle	41.86	10	25	6	7
2019	Nestle	29.92	10	25	6	6
2020	Nestle	22.12	10	25	6	7
2021	Nestle	16.81	10	25	5	7

2022	Nestle	19.21	3	25	5	7
2018	FMN	11.27	3	25	6	7
2019	FMN	18.66	3	25	3	8
2020	FMN	9.63	3	25	4	9
2021	FMN	66.42	14	25	5	5
2022	FMN	111.04	14	44	5	6
2018	Total	127.04	14	55	5	7
2019	Total	134.72	14	55	6	11
2020	Total	120.67	14	55	4	5
2021	Total	92.4	14	32	3	5
2022	Total	124.4	14	63	3	6
2018	Unilever	98.7	14	61	4	7
2019	Unilever	119.2	14	77	4	8
2020	Unilever	59.53	11	32	5	4
2021	Unilever	58.11	11	32	6	4

2022	Unilever	64.2	11	32	5	5
2018	PZ	23.01	11	9	4	5
2019	PZ	89.03	11	9	5	5
2020	PZ	90.45	11	9	6	6
2021	PZ	95.39	11	9	4	7
2022	PZ	104.77	11	20	4	6
2018	UAC	158.02	11	20	4	6
2019	UAC	189.53	11	20	4	7
2020	UAC	5.45	6	5	4	6
2021	UAC	2.86	6	5	3	6
2022	UAC	12.53	6	5	5	4
2018	Beloxxi	6.14	6	3	4	5
2019	Beloxxi	6.18	6	3	3	4
2020	Beloxxi	4.58	6	3	3	4
2021	Beloxxi	6.31	6	3	3	4

2022	Beloxxi	8.43	6	3	3	4
2018	Glaxo	7.36	8	3	3	4
2019	Glaxo	6.49	6	3	4	4
2020	Glaxo	4.66	6	3	5	4
2021	Glaxo	8.77	4	4	6	6
2022	Glaxo	5.73	4	4	5	6
2018	Yale	10.98	4	7	6	6
2019	Yale	16.49	4	7	6	7
2020	Yale	8.32	4	7	5	7
2021	Yale	10.4	4	7	5	7
2022	Yale	2.84	4	7	5	8
2028	Colgate	6.69	5	6	5	7
2019	Colgate	8.24	5	6	4	4
2020	Colgate	1.95	5	6	5	6
2021	Colgate	11.08	5	6	5	6

2022	Colgate	9.81	4	4	7	7
2018	Cardbury	5.16	6	4	7	7
2019	Cardbury	28.74	6	4	7	7
2020	Cardbury	23.01	6	4	7	7
2021	Cardbury	89.03	6	4	7	7
2022	Cardbury	90.45	6	6	7	7
2018	Tata	95.39	7	6	7	7
2019	Tata	104.77	7	6	7	7
2020	Tata	158.02	7	6	7	7
2021	Tata	6.63	7	6	7	7
2022	Tata	4.07	7	6	7	7
2018	ITC	2.44	3	5	6	6
2019	ITC	44.12	3	5	6	6
2020	ITC	35.82	3	5	6	6
2021	ITC	9.83	3	5	6	6

2022	ITC	17.22	3	5	6	6
2018	Marico	9.3	3	5	6	6
2019	Marico	23.17	3	5	6	6
2020	Marico	2.9	3	5	6	6
2021	Marico	14.11	5	5	7	7
2022	Marico	14.45	5	5	7	7
2018	Nifty50	14.45	5	5	7	7
2019	Nifty50	43.8	5	5	7	7
2020	Nifty50	43.47	5	5	7	7
2021	Nifty50	32.56	5	5	7	7
2022	Nifty50	26.83	5	5	7	7