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Effect of Audit Committee Attributes on Financial Reporting Quality: Evidence from Listed Consumer Goods Companies in Nigeria

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Abstract

This study examined the effect of audit committee attributes on the financial reporting quality of listed consumer goods companies in Nigeria. There has been continuous concern about quality financial report representing real business activities due to conflicts of interest among companies' stakeholders, especially the management team. The study adopted an ex-post facto research design and data were collected from annual reports and accounts of the sampled companies in Nigeria for the period 2012-2022. The data were analysed using descriptive statistics, correlation analysis, and multiple regression techniques. The result revealed that higher industry experience, financial expertise, have significant negative effect on accruals, thereby improving financial reporting quality. However, audit committee independence and audit committee size has a non-significant effect on financial reporting quality of listed consumer goods companies in Nigeria. companies should focus on the quality of industry experience, financial expertise, and meeting effectiveness rather than merely increasing audit committee size or independence.
Key words: *Audit Committee, Financial Reporting Quality, Accrual Quality, Industry Experience*

1. Introduction

Reliable financial reporting is essential for stakeholders, including investors, regulators, and management, to make informed decisions. The financial reports of companies provide a comprehensive overview of their economic performance, cash flows, and position. These reports are critical for building trust and confidence among stakeholders. However, concerns about the quality of financial reporting persist due to instances of fraudulent practices and corporate failures, as seen globally in cases like Enron and WorldCom, and locally with African Petroleum and Cadbury Plc in Nigeria (Mbobo & Umoren, 2016).

These financial reporting issues often stem from information asymmetry between management and stakeholders, leading to potential conflicts of interest. Audit committees play a pivotal role in addressing this challenge by ensuring financial reports are accurate, reliable, and transparent. By overseeing the financial reporting process, monitoring compliance with accounting standards, and ensuring effective internal controls, audit committees significantly enhance the quality of financial reporting (Mardessi, 2021; Financial Reporting Council, 2010).

The Nigerian consumer goods sector, a vital contributor to the country's GDP, has not been immune to financial reporting challenges. Stakeholders demand greater transparency and accountability, particularly from audit committees, which are expected to act as a critical governance mechanism. However, the effectiveness of audit committees in achieving high-quality financial reporting depends significantly on their attributes, including independence, financial expertise, industry experience, size, and meeting attendance.

Despite extensive research on the subject, findings on the relationship between audit committee attributes and financial reporting quality are inconclusive. For instance, while some studies suggest that financial expertise enhances financial reporting quality, others argue that it may have unintended negative effects due to overemphasis on technical details (Cohen, Hoitash, Krishnamoorthy & Wright, 2014; Kantudu & Alhassan, 2022). Similarly, attributes such as industry experience and independence are often assumed to improve financial oversight but lack consistent empirical validation.

This study contributes to the literature by introducing the rarely discussed variable of audit committee industry experience into the analysis. Industry-specific knowledge is crucial for effective oversight, as it equips committee members to identify sector-specific risks and ensure compliance with relevant standards. The study focuses on listed consumer goods companies in Nigeria, examining how audit committee attributes influence financial reporting quality over an 11-year period (2012–2022).

This study aims to address the following research objectives: Examine the effect of audit committee industry experience on financial reporting quality; Determine the impact of audit committee financial expertise, independence, size, and meeting attendance on financial reporting quality.

By addressing these objectives, this research provides valuable insights for policymakers, corporate governance practitioners, and academic scholars, aiming to enhance financial transparency and accountability in the Nigerian corporate sector. The remaining part of this study is divided into literature review and hypotheses development, methodology, result

2. Literature Review and Hypotheses Development

In this part, the literature review on the concepts of audit committee attributes and financial reporting quality with hypotheses are presented.

Literature Review

Financial reporting quality is defined as the accuracy, reliability, and transparency of financial information disclosed to stakeholders. High-quality financial reporting allows stakeholders to make informed decisions, supports effective resource allocation, and enhances corporate accountability (DeFond & Zhang, 2014). Within the Nigerian context, financial reporting quality has taken on added importance due to historical cases of financial misreporting and the nation's ongoing efforts to align with international reporting standards (Okeke, 2004). Recent studies have emphasized the role of governance structures, particularly audit committees, in enhancing reporting quality by overseeing the financial reporting process (Adeyemi, Okpala, & Dabor, 2012).

Audit committees are tasked with monitoring and reviewing financial disclosures to ensure they accurately reflect the company's financial health. The effectiveness of these committees, however, depends on specific attributes, such as independence, financial expertise, size, and meeting frequency. These attributes influence the committee's ability to provide effective oversight, making them critical determinants of financial reporting quality (Uadiale, 2012; Uwuigbe, Fagbemi, & Anusiem, 2013). Studies consistently show that independent, knowledgeable, and regularly engaged audit committees are better able to safeguard the integrity of financial reports, thereby improving reporting quality (DeFond, Hann, & Hu, 2005; Kibiya, Che-Ahmad, & Amran, 2016).

Audit committees play a critical role in ensuring the reliability and accuracy of financial reporting by serving as a governance mechanism to reduce information asymmetry and mitigate agency conflicts (Mbobo & Umoren, 2016). The Financial Reporting Council (2010) emphasizes that an effective audit committee oversees the financial reporting process, ensures adherence to standards, and enhances the credibility of financial statements. Audit committee attributes, such as independence, size, financial expertise, industry experience, and meeting frequency are pivotal in achieving these objectives.

Audit Committee Industry Experience

Industry experience enables audit committee members to better understand sector-specific risks, accounting practices, and regulatory requirements, thereby enhancing oversight capabilities (Cohen et al., 2014; Mbobo & Umoren, 2016). Members with relevant industry knowledge are better positioned to identify errors, prevent manipulations, and provide guidance to management, ultimately improving financial reporting quality. Despite its importance, this attribute has received limited empirical attention in the literature.

Audit Committee Financial Expertise

Financial expertise is often regarded as the backbone of effective audit committees. Members with expertise in accounting, auditing, or finance possess the technical knowledge required to oversee complex financial reporting processes. Studies such as those by Oji and Ofoegbu (2017) and Kantudu and Alhassan (2022) have shown that financial expertise positively influences financial reporting quality by ensuring accurate and transparent reporting. However, some findings suggest that excessive focus on technicalities can negatively impact the interpretability of financial statements.

Audit Committee Independence

Independence is critical for objective oversight, as it ensures that audit committee members are free from undue influence by management (Kabiru & Usman, 2021). An independent committee is more likely to act in the best interests of shareholders by promoting unbiased and accurate financial reporting (Christopher & Bassey, 2020). Empirical studies, such as those by Ormin, Tuta, and Shadrach (2014), have confirmed that audit committee independence positively correlates with financial reporting quality, though some studies report mixed findings.

Audit Committee Size

The size of an audit committee can influence its effectiveness. Larger committees may benefit from diverse expertise and perspectives, while smaller committees may be more agile in decision-making (Odjaremu & Jeroh, 2019). Empirical evidence on the optimal size is mixed, with studies like Tanko and Siyanbola (2019) showing positive and negative effects on financial reporting quality.

Audit Committee Meeting Attendance

Frequent meetings provide opportunities for committee members to collaborate, monitor management, and address emerging issues effectively (Mbobo & Umoren, 2016). Studies such as Dabor and Dabor (2015) suggest that higher meeting attendance improves financial reporting quality by fostering more rigorous oversight.

Theoretical Underpinnings

This study is grounded in Agency Theory, which highlights the role of governance mechanisms like audit committees in mitigating conflicts of interest between management (agents) and shareholders (principals) (Jensen & Meckling, 1976). Attributes such as independence and expertise are seen as tools to enhance monitoring and ensure that management's actions align with shareholders' interests. Complementary theories like Resource Dependency Theory and Economic Bonding Theory also provide insights into how audit committee attributes influence organizational outcomes.

Hypotheses Development

Audit Committee Industry Experience and Financial Reporting Quality

Industry experience equips audit committee members to identify sector-specific risks and ensure compliance with relevant accounting standards. Members with industry-specific expertise are likely to enhance the accuracy and reliability of financial reporting (Cohen et al., 2014; Mbobo & Umoren, 2016).

H1: Audit committee industry experience does not affect financial reporting quality.

Audit Committee Financial Expertise and Financial Reporting Quality

Financially literate committee members are better equipped to oversee financial reporting processes, identify errors, and ensure compliance with standards. Studies like Oji and Ofoegbu (2017) support the notion that financial expertise enhances reporting quality, though excessive technicality may sometimes have unintended effects.

H2: Audit committee financial expertise does not affect financial reporting quality.

Audit Committee Independence and Financial Reporting Quality

Independence ensures objective oversight, enabling committees to act in shareholders' interests without influence from management (Kabiru & Usman, 2021). Empirical findings often suggest a positive relationship between independence and financial reporting quality.

H3: Audit committee independence does not affect financial reporting quality.

Audit Committee Size and Financial Reporting Quality

Committee size influences its capacity to monitor management and handle financial complexities. While larger committees bring diversity, they may face coordination challenges. Studies like Tanko and Siyanbola (2019) provide mixed evidence on the relationship.

H4: Audit committee size does not affect financial reporting quality.

Audit Committee Meeting Attendance and Financial Reporting Quality

Regular and effective meetings enhance oversight by fostering collaboration and timely identification of issues (Mbobo & Umoren, 2016). Higher attendance rates are associated with improved financial reporting quality.

H5: Audit committee meeting attendance does not affect financial reporting quality.

3. Methodology

This study employed an ex-post facto research design, which examines historical data to investigate relationships between variables. The design was chosen because the data needed for the study already existed in published annual reports. The population comprised 21 listed consumer goods companies on the Nigerian Exchange Group as of December 31, 2022. This sector was chosen due to its significant contribution to Nigeria's economic development. The sample included 15 consumer goods companies, selected using a non-probability judgmental sampling technique based on the following criteria: Companies listed before December 31, 2012, to ensure consistency with International Financial Reporting Standards (IFRS) adoption; Availability of complete published annual reports for the study period; Exclusion of companies formed through mergers or acquisitions.

Data were collected from secondary sources, specifically the annual reports and financial statements of the sampled companies for the period 2012–2022. These reports, audited and prepared in accordance with IFRS, were considered reliable.

This study involved three types of variables, Dependent Variable: Financial Reporting Quality (FRQ), measured using discretionary accruals based on the Modified Jones Model (1995). Discretionary accruals (DA) is defined are defined as the difference between total accruals and (TA) and non-discretionary accruals (NDA).

Firstly, determining the total accrual values is as follows:
$TAC_{it}=NI_{it}-CFO_{it}$ ....(1)
Where:
$TACit$= total accruals of company *i* in time *t*;
NI_{it} = net income company *i* in time *t;*
CFO_{it} = cash flow from operation activity of company *i* in period *t*;
Secondly, calculate the estimated accruals value using regression equation.

$$\frac{TACit}{TAit-1}=\beta 0\left(\frac{1}{TAit-1}\right)+\beta 1\left(\frac{\Delta REVit}{TAit-1}\right)+\beta 2\left(\frac{PPEit}{TAit-1}\right)+\varepsilon it \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Where:
TAC_{it} = total accrual of company *i* in year *t;*
TA_{it-1} = total assets for company *i* for year *t*;

ΔREV_{it} = change in net revenues for sample company *i* in year t;
PPE_{it} = fixed assets (gross property, plant and equipment) of the company *i* and *t*.
Third, calculate non-discretionary accrual (NDA) as follows:

$$NDA = \beta_0\left(\frac{1}{TAit-1}\right) + \beta 1\left(\frac{\Delta REVit - \Delta RECit}{TAit-1}\right) + \beta_2\left(\frac{PPEit}{TAit-1}\right) + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Where:
NDA *it*= non-discretionary accrual in year *t*
ΔREV *it*= change in net revenues for sample company *i* in year *t*
ΔREC *it* = change in net receivables for sample company *i* in year *t*
PPE *it* = fixed assets (gross property, plant and equipment) of company *i* period *t*
TA *it-1* = total assets for sample company *i* in year *t-1*
β=fitted coefficient obtained from the regression results in the calculation of total accruals.
Finally, calculate discretionary accruals (DA) as a proxy for earnings management.

Model Specification

The theoretical model for the study was expressed as:
FRQ=f(ACA)…………………………………………………………………… (1)
Where;
FRQ = financial reporting quality;
ACA= audit committee attributes;
Restated as:
FRQ=f(ACIE,ACFE,ACID,ACSZ,ACMA) ……………………………………(2)
The econometric model is stated as:

$$FRQ_{it}=\beta_0+\beta_1 ACIE_{it}+\beta_2 ACFE_{it}+\beta_3 ACID_{it}+\beta_4 ACSZ_{it}+\beta_5 ACMA_{it}+\beta_6 FRMS_{it}+\beta_7 FRMA_{it}+€_{it} \ldots\ldots\ldots (4)$$

Where:
FRQ = Proxy Discretionary Accruals
ACIE = Audit Committee Industry Experience
ACFE = Audit Committee Financial Expertise
ACID = Audit Committee Independence
ACSZ =Audit Committee Size
ACMA = Audit Committee Meeting Attendance
FRMS = Firm Size
FRMA = Firm Age
α = Regression Intercept
$\beta_1 - \beta_7$ = Coefficient or Parameters to be estimated
€ = Error term
It = Company ***i*** in year t

To achieve the objective of the study, descriptive statistics, Correlation Matrix and Multiple Regression techniques was used to analyse the data generated for the study. The used of these techniques helped to reveal the trend in the study data, it was also used in testing the relationship between the variable and finally it was used to test the formulated hypotheses.

4. Results

This study analysed the impact of various audit committee characteristics on financial reporting quality (FRQ) of listed consumer goods companies in Nigeria. The interpretation of results starts with descriptive statistics in table 1, correlation analysis in table 2 and the robust regression in table 3.

Descriptive Statistic

Table 1 displayed the descriptive statistics of the study. Each variable was examined based on the mean, minimum and maximum.

Table 1: Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
FRQ	165	4.477	0.399	3.585	5.8
ACIE	165	0.675	0.256	0	1
ACFE	165	0.21	0.131	0	0.5
ACID	165	0.523	0.126	0.333	1
ACSZ	165	5.855	0.767	4	9
ACMA	165	3.915	0.557	2	5
FRMS	165	7.699	0.648	6.18	8.74
FRMA	165	35.333	12.628	4	58

Source: Researcher's Computation, 2022

The average value of 4.477 means 44% of the consumer goods companies have audit committee members with financial reporting quality. These companies who have FRQ did adhere to principle II of Nigeria code of corporate governance. The minimum value was 3.58 while its maximum was 5.8. This therefore means that the companies with the score above the mean value provides low score for financial reporting quality while companies with the value above 4.477 are having a higher score in providing financial reporting quality.

ACIE which stands audit committee industry experience has the mean value 0.675 with the standard deviation value of 0.256 signifies that there was no dispersed distribution from the mean. The maximum value is 1 and the minimum value 0. The mean value of 0.675 shows that most of the sampled companies have audit committee members with more or equal to three years' experience. Audit committee financial expertise (ACFE) has the mean value of 0.21 with a std. deviation value of 0.131 signifies there was a close dispersion from the mean.

The case of ACID which stands for audit committee independence, the mean value is 0.523 with maximum value of 1 and the minimum value of 1. The corresponding standard deviation of 0.126 shows that most the data were distributed around the mean. Companies in the sample that have score above the mean shows that there are more independent than those with value below the mean.

ACSZ which stands for audit committee has a mean score of 5.855 with the corresponding standard deviation of 0.767 signifies that most the sampled companies have their audit committee size close the mean. The maximum value was 9 and the minimum was 4. Therefore, it can be deduced that the companies with maximum committee size are oversized while those with 4 are under size.

Audit committee meeting attendance (ACMA) returned a mean value of 3.915 with standard deviation of 0.557 predicts that most the companies included in the sample had audit committee number clustered around the mean of 3.915. The maximum number of meetings was 5 while the minimum was 2. This signifies that the companies with minimum audit committees meet less than expected.

Firm size (FRMS) and firm age (FRMA) are the two control variables build into the model. FRMS has a log mean value of 7.699 with standard deviation of 0.648, signifying that most the companies' size was clustered around the mean. The largest company has the maximum log of asset of 8.74 while the smallest company has at a time the log of assets value of 6.18. While the mean value of firm age in years was 35.333 with standard deviation of 12.628. This predicts that most of the companies in the sample are aged around the mean. The oldest company has 58 years the minimum age was 10 years

Correlation Matrix

A correlation coefficient describes the strength and direction of association between two variables in a model. A measurement of the relationship between dependent and independent variables and among the independent variables is very important because it can support researchers to achieve the scientific goal. The strength of linear association between two variables is measured using a correlation coefficient.

Table 2: Pairwise correlations

Variables	FRQ	ACSZ	ACID	ACMA	ACFE	ACIE	FRMA	FRMS
FRQ	1.000							
ACSZ	0.243*	1.000						
	(0.002)							
ACID	-0.003	-0.013	1.000					
	(0.970)	(0.872)						
ACMA	-0.104	-0.029	0.160*	1.000				
	(0.185)	(0.711)	(0.040)					
ACFE	-0.074	-0.040	0.064	-0.071	1.000			
	(0.346)	(0.608)	(0.413)	(0.362)				
ACIE	-0.067	-0.103	0.059	0.075	-0.046	1.000		
	(0.395)	(0.187)	(0.450)	(0.340)	(0.558)			
FRMA	0.154*	-0.016	0.072	0.233*	-0.229*	0.132	1.000	
	(0.049)	(0.841)	(0.361)	(0.003)	(0.003)	(0.092)		
FRMS	0.770*	0.345*	0.159	0.011	0.000	-0.033	0.000	1.000
	(0.000)	(0.000)	(0.051)	(0.897)	(0.998)	(0.686)	(0.999)	

*** *$p<0.01$*, ** *$p<0.05$*, * *$p<0.1$*

Source: Researcher's Computation, 2022

In linking FRQ to the independent variables, the above correlation results show that there exist a positive but weak association between FRQ and ACSZ (FRQ/ACSZ = 0.243). There exists a negative and very weak association between FRQ and ACID (FRQ/AUID = -0.003). In the case of FRQ and ACMA, there exists a negative and weak association (FRQ/ACMA = -0.104). There exists a negative and weak association between FRQ and ACFE (FRQ/ACFE = -0.074). There exists a negative and weak association between FRQ and ACIE (FRQ/ACIE =- 0.067). The table above shows a positive but weak association between FRQ and FRMA (FRQ/FRMA = 0.154). In the case of FRQ and FRMS there exists a positive and strong association (FRQ/FRMS = 0,770). The correlation results generally shows that the audit committee attributes such as ACSZ, ACFE and ACFS show a positive but weakly associated with financial reporting quality.

Test of Hypotheses and Discussion

To examine the cause–effect relationship between the dependent variable and independent variables as well as to test the formulated hypotheses, this study used a robust pooled regression analysis. The regression result obtained is presented and discussed in table 4.7 below.

Table 3: Robust Pooled Regression Results

FRQ	Coef.	t-value	p-value	Sig
ACSZ	0.011	0.55	0.584	
ACID	-0.163	-1.38	0.17	
ACMA	-0.071	-2.56	0.001	***
ACFE	-0.206	-1.73	0.006	***
ACIE	-0.114	-1.96	0.041	**
FRMA	0.004	3.07	0.003	***
FRMS	0.371	14.93	0.000	***
Constant	1.845	8.36	0.000	***
R-squared		0.669		
Prob > F		0.000		
Number of obs		165		
VIF (Mean)		1.103		
Hettest (Chi^2>prob)		37.32 (0.000)		

*** *p<.01*, ** *p<.05*, * *p<.1*

Source: Researchers' Computation, 2024

Table 4.7 above shows that the R-squared is 0.669. This value suggests that 66.9% of the variation in financial reporting quality is explained by the joint effect of the audit committee attributes used in this model. F-test: 40.952, Prob > F: 0.000 which assesses the overall significance of the model is highly significant, meaning the model is a good fit and that at least one predictor is influencing response variable.

Analysis of the heteroskedasticity in table 3 above shows the probability value of 0.0000 resulting from the test for heteroscedasticity implying that the model has presence of unequal variance. This therefore implies that the probability values for drawing inference on the level of significance could not be reliable and valid. Therefore, robust pooled OLS was conducted for the test of hypotheses.

Audit Committee Industry Experience (ACIE)

The result for the effect of audit committee industry experience on financial reporting quality revealed a negative and significant effect (Coef: -0.114, p = 0.041). The hypothesis ($H0_1$) which states that audit committee industry experience has no significant effect on financial reporting quality of listed consumer goods companies in Nigeria is rejected. This implies that higher industry experience reduces accruals, improving FRQ. This aligns with the expectation that experienced committee members can better oversee financial reporting. The result does not aligns with the economic bonding theory, also aligns with the findings of Karajeh and Ibrahim (2017), despite the differences in sample size (15 versus 13 companies).

Audit Committee Financial Expertise (ACFE)
The analysis of the effect of audit committee financial expertise on financial reporting quality showed a negative and significant effect (Coef: -0.206, p = 0.006). this study found evidence to reject the $H0_1$ which claims that audit committee financial expertise has no significant effect on financial reporting quality of listed consumer goods companies in Nigeria. This implies that financial expertise is associated with reduced discretionary accruals, which in turn enhances FRQ. This finding underscores the critical role of financial expertise in audit committees. However, excessive financial expertise may lead to overzealous scrutiny, adversely affecting FRQ. Regulators may need to emphasize balanced representation within audit committees, incorporating diverse perspectives beyond financial expertise. This finding supports agency theory and aligns with prior studies by Kibiya, Ahmad, and Amran (2016), and Kantudu and Alhassan (2022), suggesting consistent effects across similar company types.

Audit Committee Independence (ACID)

Audit committee independence revealed a negative and non-significant effect on FRQ (Coef: -0.163, p = 0.170). The third hypothesis which suggests that audit committee financial expertise has no significant effect on financial reporting quality of listed consumer goods companies in Nigeria has evidence for it to be accepted. This finding challenges the expectation that independence enhances FRQ, suggesting potential inefficacies in current independence requirements or governance practices. Regulators may need to explore complementary factors, such as enhanced transparency and accountability measures, to strengthen the role of independence in improving FRQ. This result contrasts with Oji and Ofoegbu (2017), likely due to differences in the types of companies studied.

Audit Committee Size (ACSZ)

The third prediction of this study is that audit committee size non-significant effect on financial reporting quality. The result in table 3 above showed a positive but non-significant effect of audit committee size on FRQ (Coef: 0.011, p = 0.584). This suggests that there is non-significant evidence to reject the hypothesis that audit committee size has no significant effect on financial reporting quality of listed consumer goods companies in Nigeria. While larger audit committees are generally expected to improve FRQ through increased expertise and oversight, the study's results suggest that merely increasing the size of the committee may not yield significant improvements. This could stem from inadequate member qualifications or ineffective collaboration. The findings align with Moses (2016) but contradict Samuel, Mudzanir, and Mohammad (2017), possibly due to differences in company types and governance structures.

Audit Committee Meeting Attendance (ACMA)

The last prediction in this study presupposes that audit committee attendance or due diligence has non-significance effect on financial reporting quality. The result in table 3 above showed a negative and significant effect of audit committee meeting attendance on FRQ (Coef: -0.071, p = 0.001). The implication is that the hypothesis predicting that audit committee meeting attendance has no significant effect on financial reporting quality of listed consumer goods companies in Nigeria has significant evidence for it to be accepted. This suggests that attendance alone does not improve FRQ and highlights the importance of the quality of discussions and decisions during meetings. Regulators might consider implementing stricter requirements for effective participation and decision-making processes within audit committees. These findings align with those of Okeoghene and Jeroh (2019), Akpan and Nsentip (2019) and Kabiru and Usman (2021).

ACIE, ACFE, and ACMA significantly impacted FRQ, supporting the need for expertise and active engagement in audit practices. These findings align with agency theory, emphasizing the role of oversight in mitigating managerial opportunism. ACID and ACSZ did not significantly influence FRQ. This highlights the limitations of current governance frameworks in emphasizing these characteristics as drivers of reporting quality.

Conclusion

The study concludes that the effects of audit committee characteristics on FRQ are mixed, with some variables showing significant impacts while others do not. These findings have implications for regulatory bodies and corporate governance practices. Policymakers should emphasize balanced audit committee compositions, effective governance frameworks, and a focus on the quality of audit processes to enhance financial reporting quality. Future research could expand the sample size or examine other sectors to validate and generalize these findings.

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