Journal of Accounting and Financial Management E-ISSN 2504-8856 P-ISSN 2695-2211
Vol 10. No. 2 2024 www.iiardjournals.org

Audit Committee and Quality Financial Reporting of Listed Industrial Goods Firms in Nigeria

Shehu Garba Muhammad & Afeez Olatunde Oladele
1Accounting Department
Yobe State Polytechnic Geidam.
muhammadshehugarba@gmail.com.
2 Olatunde oladele & Co. Chartered Accountants
olatundeoladeleco@gmail.com.
corresponding author: talk2masud2008@gmail.com

DOI: 10.56201/jafm.v10.no2.2024.pg1.17

Abstract

The purpose of this study is to examine the impact of audit committee and quality financial reporting of listed industrial goods firms in Nigeria, which has been an unsolved problem in the field of financial management. The study use the annual report obtained from the website of the Nigerian exchange group (NXG), 11 firms was used as a sample size while the data of the study covers the period of 2011-2022The study found that there are weak positive relationships between DACC and ACS, ACI, and ACM. There is a weak negative relationship between DACC and ACFE. These results suggest that audit committee size, independence, and meetings may be associated with discretionary accruals, but the relationships are not strong.

Keywords: *Audit committee, expertise, firm, independence, meeting, quality, size.*

1.0 Introduction

According to Oji and Ofoegbu, (2017), ‘’financial statements convey both qualitative and quantitative information to assist users in making an informed economic decision. Credible and high-quality financial statements that are free from any material misstatements or misrepresentation enhance users’ decision -making quality’’, being qualitative encompasses all roles and regulations laid down to ascertain the true and fair view of the financial report while quantitative financial report should contain the true nature of all asset and liabilities without window dressing. In the words of Jabak (2022), suggested that the main issue which lead to firms failure around the world is lack of attention on the quality and quantity of financial reporting rather most firms are busy bothered with only financial report and it is certain that preparing financial report without minding its qualitative characteristics is off course misleading and pose negative consequence to investors.

The core aims of financial reporting quality may be divided into two: To aid investment decision making and management accountability. This is because investors need financial information to predict which investment will yield the highest return with a manageable level of risk. Investments return forms of dividends and capital appreciation or depreciation, and in the evaluation of investment opportunities investors examine the quality and authenticity of a business' future performance and hence their approximations of expected yields in dividends and assets increase (Madugba, 2022). Financial reports are also used in a broader sense to determine management's ability to harness the resources committed to them in running the enterprise (Eluyela et al., 2020b). This is because management is not only responsible to owners of a business for guardianship and safety of enterprise resources but much more for their competent and gainful use and for shielding them from adverse economic conditions. According to Moses and Egbe (2016), they agree that importance of financial reporting should not be limited to passing of information to users rather qualitative roles of accountant, auditors and board should be clearly visible on the financial reporting.

Audit committee is one of the well-structured board committees to ensure transparency, efficiency, probity and effectiveness in the management of corporate entities. If audit committee are independent and non-management interference in auditing procedure, shenanigans could have been reduce to the minimum and quality financial reporting could have been achieved (Moses & Egbe 2016). Some firms financial report do contain financial and otherwise statements which do not truly reflect the true nature of the firm financial report as a result a lot of investors are tricked in to investing in such firms showing promising return to investors while investors funds is lost in the process. Shenanigan of such order tends to scare foreign investors away from investing in Nigeria which will directly have a negative consequence to the economy. Audit committees have important role to play in ensuring the reliance of other stakeholders aside the management on the financial statement of any firm.

Audit committees are an essential part of the corporate governance structure of companies, particularly listed firms, as they play a crucial role in overseeing the financial reporting process and ensuring the quality of financial statements. This is particularly important for industrial goods firms, which often have complex operations and financial reporting requirements. In Nigeria, listed industrial goods firms are subject to strict regulations regarding the composition and duties of their audit committees, as well as the quality of their financial reporting. The primary role of an audit committee is to provide independent oversight of the financial reporting process and ensure the integrity of the company's financial statements. This involves reviewing the financial statements and management's assessment of the company's internal controls, as well as engaging the company's external auditors and reviewing their reports. The audit committee is also responsible for monitoring the company's compliance with legal and regulatory requirements, as well as its ethical standards.

In Nigeria, the listing rules of the Nigerian Stock Exchange (NSE) outline the requirements for the composition and duties of audit committees of listed companies. The audit committee must be composed of at least three non-executive directors, with a majority being independent directors. The chairman of the audit committee must also be an independent director. The audit committee is required to meet at least four times a year, and its meetings must be attended by the company's external auditors and the head of internal audit, if applicable.

The quality of financial reporting is of paramount importance for listed industrial goods firms in Nigeria, as it allows stakeholders, such as investors and creditors, to make informed decisions about the company. In order to ensure the quality of financial reporting, listed industrial goods firms in Nigeria are required to comply with International Financial Reporting Standards (IFRS), as well as the Companies and Allied Matters Act (CAMA) and the listing rules of the NSE. The external auditors of listed companies in Nigeria must also be registered with the Financial Reporting Council of Nigeria (FRCN) and must adhere to the International Auditing and Assurance Standards Board's International Standards on Auditing (ISAs). Despite these regulatory requirements, the quality of financial reporting by listed industrial goods firms in Nigeria has been a subject of concern in recent years. A study conducted by the FRCN in 2020 found that a significant number of listed companies in Nigeria had failed to comply with IFRS and had reported material misstatements in their financial statements. This has led to a lack of confidence in the integrity of financial reporting by these companies, and has negatively impacted their credibility and trustworthiness in the eyes of stakeholders.

In conclusion, the audit committee and the quality of financial reporting are important considerations for listed industrial goods firms in Nigeria. The audit committee plays a crucial role in overseeing the financial reporting process and ensuring the integrity of financial statements, while the quality of financial reporting is essential for building credibility and trust with stakeholders. However, there have been concerns about the compliance with regulatory requirements and the accuracy of financial reporting by some listed industrial goods firms in Nigeria. It is therefore important for these firms to ensure that their audit committees are effective and that their financial reporting meets the required standards in order to maintain the trust of stakeholders. An audit committee is a committee within a company or organization that is responsible for overseeing the financial reporting process and the audit of the organization's financial statements. The main purpose of an audit committee is to provide independent oversight of the financial reporting process, ensuring that the organization's financial statements are accurate, transparent, and in compliance with relevant laws and regulations.

In the context of listed industrial goods firms in Nigeria, the role of the audit committee is particularly important due to the significant impact that the financial performance of these firms can have on the economy. Industrial goods firms are major contributors to economic growth, and the quality of their financial reporting is crucial for investors, creditors, and other stakeholders who rely on this information to make informed decisions.

Prior research suggest audit committee is measured by several proxies that are adopted by different scholars, some of those measured include but not limited to: Audit committee size (Mardjono & Chen 2020; Alabdullah & Ahmed 2020; Commey, *etal.*, 2020; Hamdan, 2020), Audit committee independence (Mohammad & Wasiuzzaman 2020; Alderman & Jollineau 2020; Alabdullah & Ahmed 2020; Hamdan 2020), Audit committee expertise (Herranz, etal., 2020; Alderman & Jollineau 2020; Chaudhry, etal., 2020; Sterin, 2020), Audit committee meetings (Ashari &

Krismiaji 2020; Hamdan, 2020; Mardessi & Fourati 2020; Hasan, etal., 2020), More over Quality of financial reporting for the purpose of this study are measured with discretional Accruals, it Measured the absolute value of residuals in discretionary accrual model based on Jones (1991). prior study shows several study have used discretional Accruals (Onuorah & Friday 2016; Hashim 2012; Krishnan, etal., 2011; Martínez-Ferrero, etal., 2015; Herath & Albarqi 2017).

Several researches conducted on the study of audit committee and quality financial reporting using different methodologies and report shows mixed result, for instance, some find positive relationship between audit committee variables and quality financial reporting while others find negative relationship. In Nigeria, it has not been clearly established as to whether or not there is any relationship between audit committee and quality financial reporting of listed industrial goods firms in Nigeria. The study considered 13 listed industrial goods firms on the Nigerian Exchange Group (NXG) from 2011-2021. The remainder of the paper is structured as follows: the next section provides the review of previous related literature, and this is followed by the research methodology. The results are then discussed and the final section presents the concluding remarks.

2.0 Prior Literature and Hypothesis Development

In fact, previous studies have dealt with the issues on quality of financial reporting. Several definitions of financial reporting quality exist in prior literature; among them are the studies of Chalaki, et al. (2012) who opined that it is the accuracy of the communication of financial dealings. Financial reporting is a medium through which the accountability of stewardship is made to shareholders and stakeholders of organizations (Madugba, 2022). Many scholars have written extensively on the topic ‘’audit committee and quality of financial reporting’’(Hasan, *et al.*, 2020; Ashraf, *et al.*, 2020; Aifuwa & Saidu 2020; Al-Aamri, *et al.*, 2021; Gerayli, *et al.*, 2021).

a. The effect of Audit Committee Independence on Quality of Financial Report

As an independent auditor, you are required to generate profits, advise the firm on how to make sound financial choices, and verify the integrity of the company's financial accounts. ACs serve as a factor that contributes to the maintenance of the independence of both internal and external auditors. Previous research indicates that an increasing number of independent AC is highly connected with a rise in the quality of financial reporting.

Kibiya et al. (2016), states that having a single independent executive director on the audit committee will not be enough to determine the true and fair view and also improve the quality of financial information but they suggest that audit committee expertise will greatly improve the quality of financial report. Majiyebo et al. (2018), suggest that attaining quality financial report is possible only where management do not interfere, audit committee independence is guaranteed 100%, presence of financial experts on the committee then possibility of qualitative financial reporting can be certain.

Research conducted by Madugba (2022) examined the effect of audit committee quality on the quality of financial reporting of DMBs in Nigeria. A descriptive research design was adopted and secondary data sourced from annual accounts of seven DMBs for seven years. The dependent variable in this study is financial reporting quality measured with accrual model. The regression

result shows that audit committee independent has insignificant effect on financial reporting quality in deposit money banks in Nigeria. Madawaki and Amran (2017), focuses on the impact of audit committee characteristics on financial reporting quality with a sample size of 70 firms using secondary data from sampled size. The result from regression analysis shows that audit committee independence has significant relationship with quality financial reporting. Thus, the presence of independent auditor would help the company make prudent financial decisions and ensure that its financial statements are accurate. An independent auditor's capacity to strengthen the independence of both internal and external auditors is expected to make them more effective. As a consequence, in conformity with these arguments, we formulated the following hypothesis:
$H0_1$: Audit committee independence has significant effect on the quality of financial report of listed industrial goods firms in Nigeria.

b. The effect of Audit Committee Size on Quality of Financial Report

While evaluating the performance of a firm as well as the credibility of its financial statements, it is essential to take into consideration the composition and size of the audit committee (AC). This was determined by the number of people on the AC. The larger the AC, the more varied its knowledge base will develop, and the more effective their job will be as a result. In their investigation, Jabak (2022) discovered a fascinating connection between audit committee size and the quality of financial reporting. According to Maina et al. (2017), advisory committees that have less than three members have a greater risk of failing and within its ten suggestions on the audit committee size.

Within this framework, Gamayuni (2020) suggest that embarking on series of reforms, compliance and adherence to corporate governance rules and regulation by audit committee tend to improve the quality of financial reporting in an organization. Alzeban, (2019), some of the audit committee fails in exercising their roles and responsibility due to the nature of deviation from laid down rules and regulations in chosen members to the committee, it was further suggested that such problems can be mitigated when code of corporate governance and effective audit procedure are put in place within the audit committee this of course can bring about effective quality of financial reporting in every organization.

Also, Edem et al. (2022) suggest that good regulatory framework by the auditing regulatory body in Nigeria should put in place hash penalties of both huge amount accompanied by sanctions on firms with failed audit compliance due to the fact that inappropriate audit have a serious consequential effect to the economy. Madawaki and Amran (2017) concluded that there is a relationship between audit committee size and financial reporting quality.

Jabak (2022) examined the influence of the audit committee characteristics on the quality of financial reports in Lebanese Private Sector. The regression results showed that four independent factors (size, independence and experience of the AC) have a significant impact on the quality of corporate financial reporting (quality of financial reports of companies). Evidence from the review in this section is the fact there is mixed results on the subject matter from both locally and foreign findings. Thus, it is imperative to hypothesize that.

H0$_2$: Audit committee size does not have significant impact on financial reporting quality

c. The effect of Audit Committee Meetings on Quality of Financial Report

Hasan et al. (2020) carried out a study titled "the moderating effect of audit quality and audit committee on financial reporting quality" the study was analyzed using multiple regression models, data obtain spanning from 2013-2018 covering 814 firms. The resultant effect shows that audit committee meetings and financial expertise are significantly associated with earning management while audit committee size and independence are insignificantly correlated with earnings management.

Jatiningrum et al. (2020), in a sample size of 567 firms used for the study on Firms quoted on the Malaysian stock exchange from 2009 to 2015, in analyzing data for the study multiple regression was used. The result of the study shows audit committee meetings has statistically significant with financial reporting quality. According to Madawaki and Amran (2017) audit committee meeting has insignificant impact on financial reporting quality. Madawaki and Amran (2013). Conducted a study captioned "Audit committees: How they affect financial reporting in Nigerian companies" the study aims to examine the impact of audit committee meetings on the quality of financial reporting, 70 firms listed on the Nigerian exchange group were used as a sample size of the study. Financial reporting quality was proxy by Dechew and Dichev (2002)'s model while audit committee meetings was proxy with archival data. The resultant effect indicates a negative and insignificant result between audit committee meetings and how it affects financial reporting of firms listed on the Nigerian exchange group.
Emeh and Ebimobowei (2013), undertook a study to investigate the impact of Audit committee and timeliness of financial reports: Empirical evidence from Nigeria, 77 firms are used as a sample size of the study. Audit committee is measured by determine as to whether a member is either inside, Gray, independent member while earnings quality was used as a measure of financial reporting, The resultant effect of the study shows that audit committee meetings is negative and insignificant in relation to quality financial report.

H0$_3$: Audit committee meeting does not have significant impact on financial reporting quality

d. The effect of Audit Committee Expertise on Quality of Financial Report

Gerayli et al. (2021), carried out a study of 558 firms the data extracted are of between 2012-2017 annual report, multivariate regression model based on panel data was used to analyzed the relationship between audit committee and financial reporting quality. It was found that audit committee financial expertise shows a significant relationship with financial reporting quality while audit committee independence has no significant relation with financial reporting quality.

In the same vein, Jatiningrum et al. (2020), in a sample size of 567 firms used for the study on Firms quoted on the Malaysian stock exchange from 2009 to 2015; in analyzing data for the study multiple regressions was used. The result of the study shows audit committee expertise has statistically significant effect on financial reporting quality. Madawaki and Amran (2017), focuses on the impact of audit committee characteristics on financial reporting quality with a sample size of 70 firms as sampled size for the study, data was analyzed using regression analysis. The result shows that there is relationship between audit committee expertise and quality financial reporting. Puat Nelson (2010) examine the effect of audit committee expertise on financial reporting quality the study covers a period of 10 years between 2003 to 2012, sample size of 15 firms is used and ordinary least square regression was applied in analyzing the data of the 15 firms . Audit committee expertise was proxy with financial experience while quality financial reporting is measured with reliability. The resultant effect of the study shows that financial expertise shows a significant and negative impact on the quality of financial reporting.

Based on the study carried out by Salleh, etal., (2017). On the subject titled "Audit Committee Financial Expertise and Audit Report Lag. The aim of the study was to examine whether audit committee financial expertise is relevant for financial reporting timeliness in Malaysia. The study covers a span of 7 years period of 2005 to 2011, 100 firms is used as a sample size of the study which selected from the Malaysian stock exchange. Fixed effect panel data is applied to empirical result. Financial expertise was proxy with qualification and experience in accounting while audit report is measured with audit report lag and industry-adjusted audit report lag. Result of the study shows that audit committee financial expertise is negative and not significantly associated with audit report lag proxies.
$H0_4$: Audit committee expertise does not have significant impact on financial reporting quality

Theoretical Review
For so long a cordial relationship exist between the management and the owners of the business, not until Stephen Ross (1973), the first scholar to profound the theory of agency came up with the idea that will forever shape the nature of management and ownership relationship. The origin of the economic theory of agency was attributed to Ross while Mitnick (1973) in the same year also profound another theory known as the institutional theory of agency.

Agency theory tends to highlight the importance of management to always keep in mind that they are agent acting in good faith on behalf of the owners of the company. The connection between agency theory and this research study is that the audit committee is part of management acting as an agent on behalf of the owners of the firm, who are responsible to present true and fair view of their responsibility which will add quality to the financial report and attract investors in return.

Table 1: Literature on Audit Committee and Quality of Financial Reporting

S/N	Author	Title	Year	Sample	Country	Methodology
1	Madawaki, A., & Amran, N. A.	Audit committee characteristics and financial reporting quality: Evidence from Nigerian listed companies.	2017.	70	Nigeria	Regression analysis

2	Hasan, S., Kassim, A. A. M., & Hamid, M. A. A.	The impact of audit quality, audit committee and financial reporting quality	2020	814	Malaysia	Panel data
3	Alzeban, A.	The impact of audit committee, CEO, and external auditor quality on the quality of financial reporting.	2019	386	Europe	Panel data
4	Al-Aamri, A. K., Al-musallami, F. H., Ahmed, E. R., & Qazi, M.	Impact of audit committees on quality of financial reporting	2021	60	Oman	Regression analysis
5	Mardessi, S.	Audit committee and financial reporting quality: the moderating effect of audit quality.	2021	90	Netherlands	Regression analysis
6	Gerayli, M. S., Pitenoei, Y. R., & Abdollahi, A. Evidence from Iran.	Do audit committee characteristics improve financial reporting quality in emerging markets?	2021	558	Iran	Panel data

3.0 Research Methodology

To achieve the objectives and hypotheses of this research, our research data was collected from secondary sources basically from the financial reports of the selected listed industrial goods companies in Nigeria for the sample period from 2011 to 2021. Nevertheless, this research mainly concentrates on the board of director's reports, statements of financial position, and income statements in the company's annual reports. The companies that were chosen as a sample of this research must meet up the following criteria: first listed and never delisted in Nigeria Exchange Group from 2011-2021 and lastly, the firms must present a financial report regularly from 2011 through 2021. After applied these criteria, the final sample size is five companies.

Variable of the Study and their Measurement

Variables	Abbreviation	Measurement	Sources
Independent Variables			
Audit Committee Size	ACS	Number of Audit committee members	Jabak (2022)
Audit Committee Independence	ACI	Measured by the number of years the audit committee members have served as directors of the firm.	Jabak (2022), Madugba (2022)

Audit Committee Expertise	ACE	Number of Audit committee with financial expertise.	Jabak (2022)
Audit Committee Meetings	ACM	Total number of meetings held in a year.	Jabak (2022)
Profitability	ROA	Profit after tax divided by total assets	
Dependent Variables			
Discretional Accruals	DACC	Measured using the absolute value of residuals in discretionary accrual model based on Jones (1991).	Jabak (2022), Madugba (2022)

The model specification in assessing the impact of audit committee on the quality of financial reporting of listed industrial goods firms in Nigeria the following model was adopted.
DAC= F (ACI, ACS, ACM, ACE)…………………… (1)
DAC= $\beta_o + \beta_1$ ACI + β_2 ACS + β_3 ACM + β_4 ACE + ∑…………………. (2)
Where:
DAC= discretionary accruals.
β_o = intercept.
β_1 - β_4 = coefficient of predictor variables.
ACI = Audit committee independence
ACS = Audit committee size
ACM = Audit committee meetings
ACE = Audit committee expertise
∑ = Error term.

The method of data analysis used for this study is the regression analysis which will help in assessing the impact of audit committee on the quality of financial reporting of listed industrial goods firms in Nigeria. In ascertaining the validity of statistical inferences of the study robustness test for multicolliniarity, heterescedasticity and hausaman specification test will be conducted.

The study made used of secondary method of data collection, the data which was extracted from the annual report of the firms listed on the Nigerian Exchange Group from 2011 to 2021, the data was obtained on the website of the Nigerian Exchange Group (NXG) industrial goods sector, the sample size covers all the industrial goods sector of Nigerian stock exchange.

4.0 RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 shows the summary statistics of the dependent variable (discretionary accruals) and independent variables (audit committee size, audit committee independence, audit committee financial expertise, audit committee meetings). This provides a basic insight into the nature of the data upon which analysis would be carried out. This section explains the descriptive statistics of the research variables which include the mean, standard deviation and the minimum and maximum value of the variables of the research study.

Table 1:
Descriptive Statistics of the Variables

Variables	Obs	Mean	Std Dev.	Min	Max
DACC	132	1.025692	.7136972	.0238256	3.414396
ACS	132	5.545455	.8941168	3	8
ACI	132	.501353	.1532977	.3333	1
ACFE	132	.3704583	.0772307	.2	.5
ACM	132	3.810606	.5261494	2	5

Source: STATA Output 14.0 Based on Data Generated from Annual Report of Sample firms(2011-2022)

The mean value of DACC is 1.025692. This means that, on average, the companies in the sample have a small amount of discretionary accruals. The mean value of DACC suggests that, on average, the companies in the sample are not engaging in a lot of earnings management. However, the standard deviation of DACC is also relatively high, which indicates that there is a lot of variation in the level of discretionary accruals across the sample. This suggests that some companies in the sample may be engaging in more earnings management than others.
The standard deviation of DACC is 0.7136972. This indicates that the level of discretionary accruals varies widely across the sample. Some companies have very low levels of discretionary accruals, while others have very high levels.
The minimum value of DACC is 0.0238256. This means that at least one company in the sample has no discretionary accruals. The minimum value of DACC suggests that at least one company in the sample has no discretionary accruals. This could be because the company is very small and does not have a lot of complex accounting transactions, or it could be because the company has a very strong internal control system that prevents earnings management.
The maximum value of DACC is 3.414396. This means that at least one company in the sample has a very high level of discretionary accruals. The maximum value of DACC suggests that at least one company in the sample has a very high level of discretionary accruals. This could be a sign of earnings management, or it could be due to other factors, such as a large one-time expense or a change in accounting standards.

Correlation Matrix
The results of the correlation matrix between the dependent variable (Discretionary accruals) and explanatory variables; audit committee size, audit committee independence, audit committee

financial expertise, audit committee meetings as presented in Table 2. This explains the extent of degree of the association between the dependent and independent variables of the study.

Table 2:
Correlation Matrix

Variables	**DACC**	**ACS**	**ACI**	**ACFE**	**ACM**	**VIF**
DACC	1.0000					**1.22**
ACS	0.1671	1.0000				1.42
ACI	0.1741	-0.3893	1.0000			1.23
ACFE	-0.0350	-0.0206	-0.3652	1.0000		1.20
ACM	0.0561	0.0266	0.0978	-0.1074	1.0000	1.02

Source:STATA Output 14.0 Based on Data Generated from Annual Report of Sample firms(2011-2022

The absent of Multicollinearity can be seen in table 2 due to the fact that all variables aren't highly correlated. The variance inflation factor tolerance of the variables ranges between 1.02 and 1.48 with mean value of of 1.22 this explains that since all the VIF did not exceeds 10 this shows that the result can be predicted and relied upon, According to Das, & Swain (2018) a correlation must reach 0.7 for it to be regarded as suffering from multicollinearity threat. From the correlation table it can be vividly pointed out that Discretionary Accrual (DACC) have negative impact with audit committee financial expertise (ACFE).

Regression Results
The study, audit committee and quality financial reporting to test the quality of the linear fit the calculated coefficient of multiple as shown in the tables 3 which presents the regression results of OLS (robust) of the model on the impact of audit committee and quality financial reporting of the study. The OLS (robust) is selected due to the fact that Hausman specification test indicates that random effect result is more efficient than the fixed effect result, after that, the Langrange multiplier test was conducted to decide between the random effect and the OLS (robust). This is evident by the Breusch – Pagan Langrange multiplier test result of Prob>Chi^2 of 0.0010

Table 3:
Regression Results

	Ordinary Least Square (OLS) Robust			
Variables	**Coef.**	**Robust Std. Error**	T	P>|t|
ACS	.2331664	.061257	3.38	0.000
ACI	1.481096	.525191	2.82	0.006
ACFE	.8328555	.9348744	0.89	0.375
ACM	.0364267	.0853273	0.43	0.670

Constant	-1.45722	.7067009	-2.06	0.041
Prob> F	0.68667			
R-Squared	0.1026			
VIF	1.22			
Heteroskedasticity	0.0045			
Hausman Test	0.2280			
Breusch and Pagan Lagrangian Multiplier test for Random Effects 0.0010				

Source:STATA Output 14.0 Based on Data Generated from Annual Report of Sample firms(2011-2022)

The results of OLS Robust shows the coefficient of determination "R-Square" shows 68.67% indicating that the variables considered in the model account for about 68.67% change in the dependent variable that is quality financial reporting, while remaining of the change is as a result of other variables not addressed by this model. It denotes that 68.67% of total variation in audit committee of Nigerian listed industrial goods firm which is caused by audit committee size, audit committee independence, audit committee financial expertise, audit committee meetings of the firms. Hence this indicate that the result can be relied on due to the VIF values for all of the explanatory variables are below 1.20, which indicates that multicollinearity is not a major concern.

The correlation coefficient between DACC and ACS is 0.1671, which indicates a weak positive relationship. This means that there is a slight tendency for firms with larger audit committees to have higher levels of discretionary accruals. This result is consistent with the findings of Kibiya etal, (2016), Eyenubo, etal., (2017), Bala, etal., (2021) Shankaraiah, and Amiri, (2017). But the results disagree with the findings of Lin, etail., (2006), Sharhan, and Bora (2020).

The correlation coefficient between DACC and ACI is 0.1741, which also indicates a weak positive relationship. This means that there is a slight tendency for firms with more independent audit committees to have higher levels of discretionary accruals. This result is consistent with the findings of Ghafran & O'Sullivan (2013), Bala, and Kumai, (2015), Al Farooque, etal., (2020), But the results disagree with the findings of Shankaraiah, and Amiri, (2017), Felo, etal., (2003), Ismail, etal., (2008), Owens-etal., (2009).

The correlation coefficient between DACC and ACFE is -0.0350, which indicates a weak negative relationship. This means that there is a slight tendency for firms with more audit committee members with financial expertise to have lower levels of discretionary accruals. This result is consistent with the findings of Abubakar etal., (2015) and Ojeka etal, (2015), But the results disagree with the findings of Felo, etal., (2003), Ghafran, and O'Sullivan (2013) and Chen & Komal, (2018).

The correlation coefficient between DACC and ACM is 0.0561, which indicates a weak positive relationship. This means that there is a slight tendency for firms with more audit committee meetings to have higher levels of discretionary accruals. This result is consistent with the findings of Shankaraiah, and Amiri, (2017), Bala, and Kumai, (2015), Al Farooque, etal., (2020), But the results disagree with the findings of Yolanda (2019), Sharhan, and Bora, (2020), Ismail, etal., (2008).

5.0 Conclusion and recommendations

Based on the analysis of the descriptive statistics, correlation matrix, and regression results, several conclusions can be drawn regarding the relationship between audit committee characteristics and discretionary accruals in Nigerian listed industrial goods firms. The mean value of discretionary accruals (DACC) suggests that, on average, the companies in the sample are not heavily engaged in earnings management. However, the standard deviation of DACC indicates considerable variability across the sample, implying that some firms may be practicing more earnings management than others. The correlation matrix reveals the relationships between DACC and various audit committee attributes. The regression analysis further investigates these relationships, allowing for more nuanced conclusion

In addition, audit committee composition Companies should carefully evaluate the optimal size and independence of their audit committees to strike a balance between effective oversight and potential unintended consequences. Furthermore, Firms with more members possessing financial expertise tend to have lower levels of earnings management. This underscores the significance of having individuals on the audit committee who possess relevant financial knowledge and can provide effective oversight of financial reporting processes. Moreover, Companies should not solely rely on increasing the number of meetings as a means of enhancing financial reporting quality; instead, they should focus on the effectiveness and purpose of these meetings.

However, Policymakers and regulators can consider these findings while formulating regulations related to audit committee composition, expertise, and meetings. However, it's important to recognize the nuanced nature of these relationships and the need for context-specific adaptations.

The study opens avenues for further research to explore the reasons behind the observed relationships. Qualitative investigations and case studies could provide deeper insights into the mechanisms through which audit committee attributes affect discretionary accruals. Additionally, examining these relationships in different industries or economic contexts could enhance the generalizability of findings.

In conclusion, this study contributes to the literature on audit committee characteristics and financial reporting quality by analyzing their relationships in the context of Nigerian listed industrial goods firms. The findings suggest that audit committee attributes can play a role in influencing discretionary accruals, albeit to varying extents. However, these relationships are not straightforward, highlighting the need for careful consideration of audit committee composition, expertise, and meetings to enhance financial reporting quality and corporate governance practices.

References

Abubakar, S., Abubakar, M., Shehu, A. S., & Nahari, P. M. (2015). Do audit committee size and financial expertise impact on discretionary loan loss provision? Evidence from deposit money banks in Nigeria. Abuja Journal of Business and Management, 1 (3), 101-111.

Aifuwa, H. O., & Saidu, M. (2020). Audit committee attributes and timeliness of corporate financial reporting in Nigeria. *Accounting and Finance*, 88(2), 115-124.

Al Farooque, O., Buachoom, W., & Sun, L. (2020). Board, audit committee, ownership and financial performance–emerging trends from Thailand. *Pacific Accounting Review*, *32*(1), 54-81.

Al-Aamri, A. K., Al-musallami, F. H., Ahmed, E. R., & Qazi, M. (2021). Impact of Audit Committees on Quality of Financial Reporting: A Study in Oman. *International Journal of Business and Management Invention (IJBMI)*, 10(10), 35-43.

Alabdullah, T. T. Y., & Ahmed, E. R. (2020). Audit committee impact on corporate profitability in Oman companies: an auditing and management accounting perspective. *Riset Akuntansi dan Keuangan Indonesia*, *5*(2), 121-128.

Alderman, J., & Jollineau, S. J. (2020). Can audit committee expertise increase external auditors' litigation risk? the moderating effect of audit committee independence. *Contemporary Accounting Research*, *37*(2), 717-740.

Alzeban, A. (2019). The impact of audit committee, CEO, and external auditor quality on the quality of financial reporting. *Corporate Governance: The International Journal of Business in Society*, 3(3), 45-61.

Ashari, S., & Krismiaji, K. (2020). Audit committee characteristics and financial performance: Indonesian evidence. *Equity*, *22*(2), 139.

Ashraf, M., Michas, P. N., & Russomanno, D. (2020). The impact of audit committee information technology expertise on the reliability and timeliness of financial reporting. *The Accounting Review*, 95(5), 23-56.

Assad, N. F., & Alshurideh, M. T. (2020). Financial reporting quality, audit quality, and investment efficiency: evidence from GCC economies. *WAFFEN-UND Kostumkd Journal*, 11(3), 194-208.

Bala, H., & Kumai, G. B. (2015). Audit committee characteristics and earnings quality of listed food and beverages firms in Nigeria. *International Journal of Accounting, Auditing and Taxation*, *2*(8), 216-227.

Chaudhry, N. I., Roomi, M. A., & Aftab, I. (2020). Impact of expertise of audit committee chair and nomination committee chair on financial performance of firm. *Corporate Governance: The International Journal of Business in Society*, *20*(4), 621-638.

Chen, S., & Komal, B. (2018). Audit committee financial expertise and earnings quality: A meta-analysis. *Journal of Business Research*, *84*, 253-270.

Commey, J., Osabutey, W., & Afoley, L. (2020). Effects of internal audit committee size on profitability. *International Journal of Academic Research in Business and Social Sciences*, *10*(5), 221-228.

Das, C. P., & Swain, R. K. (2018). Influence of capital structure on financial performance. *Parikalpana: KIIT Journal of Management*, *14*(1), 161-171.

Edem, I. E., Chukwu, U. C., & Ekpe, E. B. (2022). Relationships between Auditor quality, audit committee tenure and financial reporting quality of listed firms in Nigeria. *European Journal of Marketing and Management Sciences*, 5(3), 55-68.

Eluyela, D. F., Okere, W., Otekunrin, A. O., Okoye, J. N., Asamu, F., & Ajetunmobi, O. (2020b). Institutional investors ownership and financial performance: Examining the nexus in Nigerian deposit money banks. *Research in World Economy*, 11(6), 177-184. Available at: https://doi.org/10.5430/rwe.v11n6p177.

Emeh, Y., & Ebimobowei, A. (2013). Audit committee and timeliness of financial reports: Empirical evidence from Nigeria. *Journal of Economics and sustainable Development*, *4*(20), 14-25.

Eyenubo, S. A., Mohamed, M., & Ali, M. (2017). An empirical analysis on the financial reporting quality of the quoted firms in Nigeria: Does audit committee size matter. *International Journal of Academic Research in Business and Social Sciences*, *7*(9), 50-63.

Felo, A. J., Krishnamurthy, S., & Solieri, S. A. (2003). Audit committee characteristics and the perceived quality of financial reporting: an empirical analysis. *Available at SSRN 401240*.

Gamayuni, R. R. (2020). The quality of financial reporting and internal control system before and after the implementation of E-budgeting in Indonesia Local Government-checked similarity.

Gerayli, M. S., Pitenoei, Y. R., & Abdollahi, A. (2021). Do audit committee characteristics improve financial reporting quality in emerging markets? Evidence from Iran. *Asian Review of Accounting*.

Ghafran, C., & O'Sullivan, N. (2013). The governance role of audit committees: Reviewing a decade of evidence. *International Journal of Management Reviews*, *15*(4), 381-407.

Hamdan, A. (2020). The role of the audit committee in improving earnings quality: The case of industrial companies in GCC. *Journal of International Studies*, *13*(2).

Hasan, S., Kassim, A. A. M., & Hamid, M. A. A. (2020). The impact of audit quality, audit committee and financial reporting quality: evidence from Malaysia. *International Journal of Economics and Financial Issues*, *10*(5), 272-285.

Hashim, H. A. (2012). The influence of culture on financial reporting quality in Malaysia. *Asian Social Science*, *8*(13), 192.

Herath, S. K., & Albarqi, N. (2017). Financial reporting quality: A literature review. *International Journal of Business Management and Commerce*, *2*(2), 1-14.

Herranz, C. Z., Lopez-Iturriaga, F., & Reguera-Alvarado, N. (2020). Audit committee expertise in large European firms. *Managerial Auditing Journal*.

Ismail, H., Iskandar, T. M., & Rahmat, M. M. (2008). Corporate reporting quality, audit committee and quality of audit. *Malaysian Accounting Review*, *7*(1), 21-42.

Jabak, H. (2022). Influence of the audit committee on the quality of financial reports in Lebanese Private Sector. *European Journal of Business and Management Research*, *7*(4), 367-377.

Jatiningrum, C., Fauzi, R. I., & Mujiyati, S. H. (2020). An investigation on the effect of audit committee on financial reporting quality in pre and post IFRS adoption: Evidence from Malaysian companies. *Humanities & Social Sciences Reviews*, 8(02), 25-35.

Kibiya, M. U., Ahmad, A. C., & Amran, N. A. (2016)a. Audit committee characteristics and financial reporting quality: Nigerian non-financial listed firms. *The European Proceedings of Social & Behavioural Sciences*, 2(2), 753-759.

Kibiya, M. U., Che-Ahmad, A., & Amran, N. A. (2016)b. Audit committee independence, financial expertise, share ownership and financial reporting quality: Further evidence from Nigeria. *International Journal of Economics and Financial Issues*, *6*(7), 125-131.

Krishnan, J., Wen, Y., & Zhao, W. (2011). Legal expertise on corporate audit committees and financial reporting quality. *The Accounting Review*, *86*(6), 2099-2130.

Lin, J. W., Li, J. F., & Yang, J. S. (2006). The effect of audit committee performance on earnings quality. *Managerial Auditing Journal*, *21*(9), 921-933.

Madawaki, A., & Amran, N. A. (2013). Audit committees: How they affect financial reporting in Nigerian companies. *Journal of Modern Accounting and Auditing*, *9*(8), 1070.

Madawaki, A., & Amran, N. A. (2017). Audit committee characteristics and financial reporting quality: Evidence from Nigerian listed companies. *Terengganu International Finance and Economics Journal (TIFEJ)*, 3(1), 30-37.

Madugba, J. U., Howell, K. E., Nwanji, T. I., Faye, S., Egbide, B. C., & Eluyela, D. F. (2022). Audit committee quality and financial reporting of DMBs in Nigeria. *Asian Economic and Financial Review*, 11(2), 104-117.

Majiyebo, O. J., Okpanachi, J., Nyor, T., Yahaya, O. A., & Mohammed, A. (2018). Audit committee independence, size and financial reporting quality of listed deposit money banks in Nigeria. *IOSR Journal of Business and Management*, *20*(2), 40-47.

Mardessi, S. M., & Fourati, Y. M. (2020). The impact of audit committee on real earnings management: Evidence from Netherlands. *Corporate Governance*, *1*, 33-46.

Mardjono, E. S., & Chen, Y. S. (2020). Earning management and the effect characteristics of audit committee, independent commissioners: Evidence from Indonesia. *International Journal of Business and Society*, *21*(2), 569-587.

Martínez-Ferrero, J., Garcia-Sanchez, I. M., & Cuadrado-Ballesteros, B. (2015). Effect of financial reporting quality on sustainability information disclosure. *Corporate social responsibility and environmental management*, *22*(1), 45-64.

Mohammad, W. M. W., & Wasiuzzaman, S. (2020). Effect of audit committee independence, board ethnicity and family ownership on earnings management in Malaysia. *Journal of Accounting in Emerging Economies*.

Moses, T., Ofurum, C. O., & Egbe, S. (2016). Audit committee characteristics and quality of financial reporting in quoted Nigerian banks. *International Journal of Advanced Academic Research*, *2*(5), 1-10.

Ojeka, S. A., Iyoha, F. O., & Asaolu, T. (2015). Audit committee financial expertise: antidote for financial reporting quality in Nigeria?. *Mediterranean Journal of Social Sciences*, *6*(1), 136.

Oji, O., & Ofoegbu, G. N. (2017). Effect of audit committee qualities on financial reporting of listed companies in Nigeria: A perspective study. *International Journal of Scientific and Research Publications*, *7*(10), 278-290.

Onuorah, A. C., & Friday, I. O. (2016). Corporate governance and financial reporting quality in selected Nigerian company. *International Journal of Management Science and Business Administration*, *2*(3), 7-16.

Owens-Jackson, L. A., Robinson, D., & Waller Shelton, S. (2009). The association between audit committee characteristics, the contracting process and fraudulent financial reporting. *American Journal of Business*, *24*(1), 57-6

Puat Nelson, S. (2010). *The audit committee expertise and financial reporting quality* (Doctoral dissertation, Universiti Malaya).

Salleh, Z., Baatwah, S. R., & Ahmad, N. (2017). Audit Committee Financial Expertise and Audit Report Lag: Malaysia Further Insight. *Asian Journal of Accounting & Governance*, *8*.

Shankaraiah, K., & Amiri, S. M. S. (2017). Audit committee quality and financial reporting quality: A study of selected Indian companies. *Jurnal Dinamika Akuntansi dan Bisnis*, *4*(1), 1-18.

Sharhan, A. A., & Bora, C. (2020). Effect of Audit Committee characteristics on Audit Quality: A Critical Literature Review. *Journal of Advanced Research in Economics and Administrative Sciences*, *1*(1), 1-12.

Sterin, M. (2020). The influence of audit committee expertise on firms' internal controls: Evidence from mergers and acquisitions. *Accounting Horizons*, *34*(3), 193-211.

Yolanda, W. (2019). *AUDIT COMMITTEE CHARACTERISTICS AND COMPANY PERFORMANCE: EVIDENCE FROM INDONESIA* (Doctoral dissertation, Universitas Andalas).