Innovations

Audit Committee and Financial Reporting Quality of Non-Financial Firms in Nigeria (2013 – 2022)

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Abstract: *The study investigated the effect of audit committee characteristics on financial reporting quality (FRQ) of non-financial firms in Nigeria and the moderating effect of audit quality (AQ) in this relationship. Five audit characteristics selected for the study are audit committee busyness (ACB), audit committee gender diversity (ACGD), audit committee competence (ACC), audit committee size (ACS), and audit committee independence (ACI). It employed a correlational research design based on panel data generated from the annual reports and statements of accounts of quoted non-financial firms on the Nigerian Exchange Group, spanning 2013 to 2022. A sample of 67 firms were selected from 106 quoted non-financial firms using the Taro Yamani formula. The quantile regression was employed in data analysis. The results showed that: ACB had no significant effect on FRQ across all quantiles, ACGD showed negative impacts on FRQ, especially for firms with lower financial reporting standards. ACC and ACI had a heterogeneous and insignificant effects on FRQ at all quantiles, whereas ACS had positive influence on FRQ in firms with higher reporting standards, but less significant impacts for firms with lower standards. The moderating effects of audit quality on these relationships is pronounced in ACGD and ACS necessitating improvement in the FRQ for of ACGD in firms with lower financial reporting standards, but dampens the positive effect of ACS in firms with higher reporting standards. The study recommends that a holistic governance approach that integrates audit quality with other audit committee characteristics, is apt for improving the financial reporting outcomes, at least for the non-financial firms. It is thus recommended that enhancing gender diversity qualifications, strengthening regulatory oversight of audits, and promoting auditor competence and independence are sound policies that would improve FRQ in Nigerian firms.*

Keywords: *Audit committee characteristics, financial reporting quality, Audit quality, non-financial firms, Nigeria*

Introduction

The Companies and Allied Matters Act (CAMA) (2020) requires registered firms in Nigeria to publish their financial statement at most 90 days after the end of their financial year. The public relies on financial reports to gauge the financial information such as the company's solvency, profitability, liquidity and overall financial health. Financial report is not only about the information disclosed (CFA Institute, 2022), but its accuracy and fairness about the fundamental financial position and economic performance of a firm (Herath & Albarqi, 2017). A poor- and low-quality reporting quality described as one that contain inaccurate, misleading, or incomplete information, is reportedly one leading cause of a rise in high-profile scandals that resulted not only in investor losses but also in reduced confidence in the firm. Financial reporting quality is critical not just for end-users, but also for the economy as a whole, because it has an emotional influence on the financial and investment choices (Ayinla, Aliyu & Abdullah, 2022).

Misguiding financial report has given impetus to widespread cases of accounting and financial scandals across the world among which are Cadbury (1997), Enron (2001), Xerox (2002), Parmalat (2003), WorldCom (2004), are some of the reasons that investors discredit financial statement information (Ibrahim, et al, 2015). in the Nigerian case, Cadbury overstated her profit, exposing the weaknesses in corporate governance practices in Nigeria. The CAMA (2020) have mandated public limited liabilities companies in Nigeria to establish audit committee to assist in ensuring the overall integrity and reliability of the financial statements and monitor the effectiveness of accounting system in Nigerian firms. The composition, technical competence and role of audit committees vary from country to country. The composition, activities and competence of audit committee has implications for the quality of financial reporting. The Financial Reporting Council (FRC) of Nigeria (2019) recommends that audit committee should be appropriately sized with respect to skill set, cognate experience, competency, gender diversity and devotion of sufficient time to assure that the corporate objectives are not vitiated.

Some theories posit that the audit committee characteristics is capable to make or mar the quality and usefulness of the financial report. The agency theory of Jensen and Meckling (1976) support that some corporate governance structures such as the audit committee is necessary to bridge information asymmetry (Ogundana, Ojeka, Ojua, & Nwaze, 2017; Oussii & Boulila-Taktak, 2018). The stakeholder's theory agrees that the principals and other stakeholders should be protected and their interest, which can only be achieved if the firm performs well and survives. Though, Freeman (1984) posits that the management has the responsibility of maintaining morals and values that will project good public image for the firm, thus providing confidence on financial reporting.

Extant studies acknowledge two indicators of financial reporting quality as "relevance" and "reliability" (Umobong & Ibanichuka, 2017; Tanko & Siyanbola, 2019). Relevance is measured by calculating interval of days between the statement of financial position closing date and the signed date of the auditor's report stated in the annual report (Iyoha, 2012). The reliability of total accrual is a measure of Financial Reporting Quality which relies on estimates of discretionary accruals using modified Jones model. In Nigerian non-financial firms, empirical studies have been ongoing to explain the financial reporting quality of firms in terms of relevance and reliability and these results has remain conflicting.

Corporate accounting scandals which continued to rock the Nigeria non-financial sectors despite the auditor certification of financial statements as free from material error. Thisalso happens even in firms audited by the well acclaimed Big 4s in the system that engulf huge audit services. It is germane that financial information delivered are honest and correct in order to assist all stakeholders in sound decision taking. Inaccurate financial reporting will lead shareholders and prospective investors to holding erroneous opinion about the firm's financial position and profitability. The accounting numbers have formed the basis on which stakeholders determine the direction of business entity. However, there has been over reliance on the accounting numbers presented in the financial statements in making financial decisions. It is germane to understand the audit roles in curtailing this via integrity and the characteristics of the audit committee.

Objectives of the study

The main objective of the study is to examine the effect of audit committee characteristics on the quality of financial reporting of non-financial firms in Nigeria. Specifically, the study aimed to:

- Determine the effect of audit committee busyness on the quality of financial reporting of non-financial firms in Nigeria.
- Ascertain the effect of audit committee board diversity on the quality of financial reporting of non-financial firms in Nigeria.
- Determine the interaction of audit committee competencies and the quality of financial reporting of non-financial firms in Nigeria.
- Assess the effect of audit committee independence on the quality of financial reporting of non-financial firms in Nigeria.
- Examine the effect of audit committee size on the quality of financial reporting of non-financial firms in Nigeria.
- To find out the effect of individual and joint moderating effect of audit quality on the relationship between audit committee characteristics and the financial reporting quality of non-financial firms in Nigeria.

Literature Review

The hallmark of a financial report is credible accounting information to outside users for decisions. Financial reporting quality is the extent to which the financial information represents the true and fair view of the performance and financial status of the company. The quality of financial reports lies in the capacity of financial metrics to represent the economic status and results, enabling the accounting information to beutilised to precisely communicate ideas about a business performance so that users receive with faith to be true (See Olowookere, et al, 2021, Aifuwa & Embele, 2019).

Adherence to accounting standards is a moderator for financial reporting quality. To ascertain the degree of quality, financial statements should meet certain qualitative criteria, such as ones set by the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB), which expect that a high-qualityfinancial report is achieved by adherence to the objective and the qualitative characteristics of financial reporting information. As contained in the IASB (2008), the checklists for FRQ are Relevance, Faithful representation, Understand ability, Comparability, and Timeliness. Relevance connotes that the information is meaningful to the various users and interested parties to the financial report (Ogbeifun & Adeniran, 2020).Faithful representation means how the condition of the business is reflected accurately by being neutral, complete, free from material error, and verifiable (IASB, 2008). Understand ability connotes that the information should be presented so that a reader can easily comprehend it as being transparent and clear (Ogbeifun & Adeniran, 2020; Adeleke, 2021); while Comparability is the level of standardization of accounting information that enables the financial statements of multiple organizations to be compared to each other as being consistent in accounting policies and procedures from period to period within a company (Ogbeifun & Adeniran, 2020; Adeleke, 2021); and Timeliness refers to the provision of information to users quickly for them to act. The content of financial reports as depicted in the checklist is a measure of financial reporting quality. From the point of disclosure, Ogbeifun and Adeniran (2020) posit that FRQ is based on a 10-point Financial Report Disclosure Index covering Company Accounting Policies, Consolidated Financial Statement, Stock Price Information, Chairman's Statement, Management Director's Review, Internal Control functions of Internal Audit, Risk Management, Corporate Governance and awareness, Publication of annual audit committee report and disclosure of penalties and sanctions against or by the company.

The audit committee has the responsibility of ensuring quality in the financial report. Financial reporting has been noted to desire quality when it enhance accuracy and precision of materials information and endear confidence of the stakeholders. The important role of audit committee is to oversee the integrity of financial statements, the efficiency and effectiveness of internal control system and monitoring of both internal and external auditors (Eyenubo, Mohamed & Ali, 2017). Audit Committee is a statutory provision for regulation of financial reports, that oversees various financial reporting functions, including implementing internal controls, auditing processes, and other essential procedures like communication with external auditors (Nguyen & Dang, 2022).

Audit committee characteristics defines the features necessary to drive the responsibilities of the audit committee to imbue transparency and attributes that which will engender quality financial reporting. Literature connotes that committee size, independence, gender diversity, competence and busyness can influence the financial reporting quality of quoted firms. However, financial reporting quality will, to a very great extent, be influenced by the audit quality itself. Audit quality is driven by the capacity of the auditor to render a report that contains all material information about the firm. Hence, audit quality is a veritable moderator of the financial reporting quality of the annual report. The nature of the relationship is as shown in Figure 1.

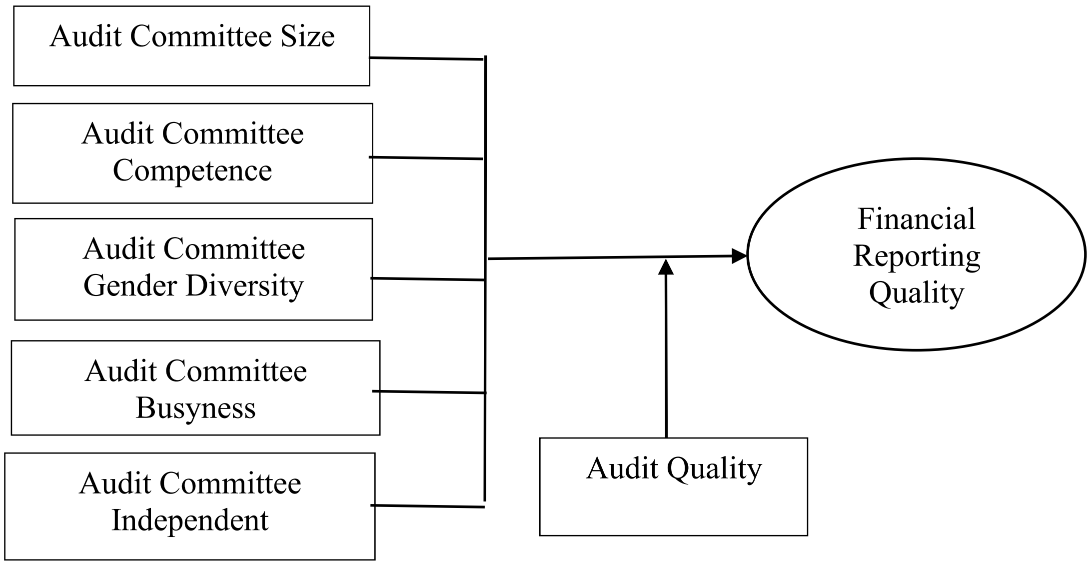

Figure 1: Conceptual link of the relationship between audit committee characteristics and financial reporting quality.

Figure 1 showed that Audit Committee Size, competence, gender diversity, busyness and independence can determine financial reporting quality, but the presence of audit quality can inhibit, moderate or confound the outcome. This is why this study moderated the relationship between audit committee characteristics and financial reporting quality, with the audit quality. The involvement of the big4 audit firms as external auditors hasa huge influence on the audit quality, which has been used as a proxy for audit quality in the Nigerian context. It is posited that audit committees are created with a sole aim of affirming the trust towards the firms' integrity in the minds of the public about the internal procedures; the audit quality is a booster to the quality of the report itself as the auditor ensures that the annual report contains all the material information required by the investors and other stakeholders in making decisions.

In line with the work of Damayanti, Uzliawati and Taqi (2023), audit quality, represented by the presence of the Big 4 audit firms, moderates each of the audit committee characteristics. This will create a 10-model outlook where the relationship between each of the audit committee characteristics is moderated by audit quality, and then another comprehensive model where all the variables are jointly moderated by audit quality. This conception connotes that any audit committee characteristics have a direct effect on the financial reporting quality as well as jointly influence it, but is theoretically moderated by the extent of audit quality in the firm.

Empirical Review

Extant empirical studies have shown a highly complex and insightful results about the relationship between audit committee characteristics and financial reporting quality of firms, as well as the moderating effect of using the services of more reliable external auditors, which we describe as audit quality. The work of Damayanti, Uzliawati and Taqi (2023) carried out in Indonesia with data spanning 2018-2020 showed an OLS results indicating that audit committee size, financial ability and independence, had significant positive effects to financial statement quality; and that moderating effects of audit quality are positive and significant on size and independence but not on financial ability.

In the work of Qader, Yusoff, Barzinji, Basri & Md Salleh (2023) from Iraqi firms, a Smart PLS-3.0 analysis using data from a structured questionnaire showed that audit committee size, audit committee independence and audit committee expertise positively and significantly relate to financial reporting quality. In a study that sample of 127 firms across Kenya government-owned enterprises using the Likert scale responses, Ojuwa and Mwangi (2023) used correlation and regression analyses to reveal that both audit committee expertise and independence had a positive and significant effect on the quality of the financial report. Still in Kenya, Mwangi (2023) averred that audit committee independence, audit committee diversity, audit committee financial competence and audit committee meetings reduced the ratio of queried transactions to the annual budget of non-commercial state corporations in Kenya.

On the contrary, Agyei-Mensah (2022) found a similar result with a touch of nounced explanation. A regression analysis using 90 firm-year observations spanning 2013 to 2015revealed financial reporting quality had a positive relationship with audit committee financial expertise and size, but that audit report lag negatively influences them, suggesting that timeliness is a key determinant of sound financial reporting quality. Using data from 100 companies spanning 2010 to 2019, Bazhair (2022) investigated the impact of the audit committee attributes in determining the financial performance of Saudi non-financial firms. The data generated were analysed with panel data techniques based on pooled OLS, fixed and random effects. The results showed that audit committee size and meetings negatively influence firms' performance; whereas audit committee independence and financial expertise indicate a strong and positive relationship with financial performance.

In the Nigerian context, results are mixed, conflicting and nuanced. For instance, Akanbi, Adedipe and Ajayi (2022) conducted a fixed effect analysis using a span of

2008 to 2019 and revealed that audit committee independence had a significant negative influence on the quality of financial reporting; whereas other variables (financial expertise, meetings, size) did not. However, the control variables, being audit fees and firm size, showed positive and significant effects on the financial reporting quality of the selected firms.

Orife, Orjinta and Ofor (2022) investigated the effect of audit committee characteristics on financial reporting quality of the oil and gas firms in Nigeria from 2011 to 2020. Data on audit committee characteristics were represented by audit committee size, audit committee busyness, audit committee gender diversity and audit committee independence, while the dependent variable of financial reporting quality was captured as the timeliness of financial reports. The result obtained with the panel multiple regression technique revealed that audit committee size has a positive but insignificant effect on financial reporting quality. Again, audit committee busyness, audit committee gender diversity and audit committee independence havea negative and insignificant effect on the financial reporting quality of oil and gas firms in Nigeria.

Kabiru and Usman (2021) investigated the effect of audit committee characteristics on the financial reporting quality of Deposit Money Banks (DMBs) in Nigeria. The data covered a sample of 14 banks for ten years, spanning 2009 to 2019. The data obtained from the annual report and statement of accounts of the selected firms were analysed using the random effect multiple regression analysis. The results showed that the frequency of audit committee meetings and the audit committee's female gender have a positive and significant effect on the financial reporting quality of DMBs in Nigeria, while audit committee financial expertise has a significant negative effect on the financial reporting quality of DMBs in Nigeria. Then, audit committee independence had no significant effect on the financial reporting quality of DMBs in Nigeria.

Olowookere, Oyewole and Lamidi (2021) employed 13 consumer goods firms to examine the effect of audit committee gender diversity on financial reporting quality in the Nigerian Stock Exchange between 2009 and 2019. The quality of financial reporting was captured as the inverse of absolute discretionary accounting accruals. The independent variables for audit committee gender diversity were represented by the proportion of female members in the audit committee, with two control variables being firm size (natural log of total assets) and leverage (ratio of total debt to shareholders' equity). The data were obtained from the annual reports and accounts of the quoted firms and analysed using the regression technique. The findings showed that gender diversity was positive and hada significant effect on financial reporting quality.

Duru, Okpe and Agodosi (2019) investigated the relationship between audit committee characteristics and financial reporting quality of Fast-Moving Consumer

Goods Companies (FMCG) in Nigeria. The audit committee characteristics were proxied by meeting, independence and financial expertise, whereas financial reporting quality was captured with discretionary accruals. The data obtained from the annual report of the firms covered a period of 5 years (2012 to 2016) and eight quoted firms. The data were analysed using descriptive statistics, correlation and pooled OLS regression. The results showed that all the audit committee variables had an insignificant relationship with discretionary accruals. Meeting and independence were positive, while financial expertise was negative. It also showed low frequency of meetings, low committee independence, and low financial expertise.

Oyetunji, Atanda and Adekanmbi (2022) assessed the impact of auditor independence on the reliability of financial statements of savings banks in Nigeria with particular emphasis on its importance to current and potential users. The study used regression analysis and pure error statistics to determine the importance of auditors' independence in their reporting. A retrospective study design was used. The sample size is within a five-year range of banks listed on the exchange group from 2015 to 2019. Although the regression result shows that the independence of the auditors is central to their report, the pure error statistic also confirmed the importance of the independence of the auditors through its result 0.00, which is below the standard of 0.05, indicating that there was no autocorrelation and the independence of the auditor is significant. The study therefore suggests that it is important for Nigerian companies to pay the necessary audit fees to select a firm audit firm among others.

Oziegbe and Ofe (2020) examined the impact of Audit Committee attributes on intellectual capital disclosure of eight Nigerian listed banks with international authorisation from the 2014-2017 financial year. Content analysis was used to extract intellectual capital disclosure items from the annual reports of the sampled banks. The multiple regression analysis of the data revealed that audit committee gender diversity and firm age have a significant impact on intellectual capital disclosure. Audit committee size, frequency of meeting, independence and financial expertise had no significant effect on intellectual capital disclosure.

Masmoudi (2021) represented audit committee characteristics using audit committee independent, financial expert, frequency of meetings and committee size; whereas financial reporting quality was captured by real earnings management, abnormal operating cash flow and discretionary expenses, and further moderated for the role of audit quality using the Big 4 in the relationship between audit committee characteristics and financial reporting quality. Results from analysis of data from 90 publicly quoted firms spanning 2010 to 2019 using OLS regression technique showed that audit committee characteristics have positive and significant relationships with real earnings management, but audit committee meetings do not have significant effects on abnormal operating cash flow and discretionary expenses. Further results showed that audit quality positively moderates the audit committee and real earnings management nexus.

Odjaremu and Jeroh (2019) examined the effect of audit committee attributes on the reporting timeliness of 21 listed Nigerian firms over 6 years (2012–2017).The OLS regression and Fixed Effect model were used for the data analysis. The results showed that audit committee size and independence had negative effects, while diligence and expertise were positive and significant on financial reporting timeliness among firms in Nigeria.

Summary of Reviewed Literature

The reviewed literature showed evidence of extensive studies in the relationships between audit committee characteristics and the financial reporting quality of firm in the non-financial sector, both in Nigeria and many developing economies in African and beyond. Despite that extant studies have remained conflicting, most of the studies did not take into consideration all the non-financial firms in Nigeria. It is also noteworthy that studies in the Nigerian context had not captured a more comprehensive pool of audit committee characteristics including independence, size, gender diversity, busyness and expertise (competences) in one model, and that audit quality which explains the place of expert external audit in public trust on the financial reporting quality was not incorporate in the previous extant studies. The present study aims to confirm the current empirical status of audit committee characteristics and financial reporting quality for Nigerian firms.

Theoretical Framework

This study hinges on the agency and the stakeholders' theories. The agency theory, propagated by Jensen and Meckling in 1976, argues that the principal-agent relationships created by the handover of company management agents will always lead to agency problems. This happens because the interest of the shareholders, which is wealth maximisation, conflicts with the agents' interests, which are mostly better salaries, bonuses and career development. As the manager acts in their own best interest at the expense of the principals, and the principals eventually begin to experience some obstacles in understanding the manager's actions or inactions, leaving the principals with insufficient information about the extent of risk or profitability of their business. Corporate governance guidelines put in place audit committees to supervise, monitor, and control the actions of the manager and to ensure a fair and reliable reporting of the activities of the firm. The agency theory argues that effective monitoring mechanisms can mitigate agency costs by reducing information asymmetry by increased disclosure. This study strongly derives from the fact that financial reports reduce information asymmetry and mitigate agency costs when the disclosures are transparent and reliable. Hence, the job of the audit committee should be to ensure reliable financial information to the investors.

On the other hand, the stakeholder theory posits that the decisions of the agents (managers) equally affect other stakeholders, like the government, employees, and host communities. Hence, Freeman (1984) argued that organisations should consider the interests of all other stakeholders and not just the shareholders in their decision-making. It equally implies that the firms should consider the interests of all stakeholders in defining the content of their disclosure. Thus, firms have to create a mechanism through the audit committee to ensure that the interests of all stakeholders are reflected in the financial statement. It is a regulatory requirement in corporate governance that the audit committee captures the interest of all stakeholders in terms of independent opinions, expertise and gender representation. These theories suggest that a timely, transparent and reliable financial report is more likely when the principals and other stakeholders participate in the composition of the audit committee.

Methodology

This study was based on a correlational research design. A sample of 67 firms representing 63.20% of the 106 non-financial firms quoted in the Nigerian Exchange Group as at June 2023 was determined with the Taro Yamani formula. The proportional sampling was adopted to evenly distribute the sample across the 10 sub-sectors comprising 24 service firms, 9 ICT firms, 4 Natural Resources firms, 8 Construction/Real Estate firms, 10 Oil and Gas firms, 13 industrial goods firms, 21 consumer goods firms, 5 conglomerate firms, 7 healthcare firms, and 5 agriculture firms. The selection of firms was those that rendered their financial reports and also had avail required data in all the periods covered by the study. The data set comprised a panel of 670 observations from 67 listed firms for a period of 10 years.

The dependent variable is the financial reporting quality (FRQ) measured with modified Jones model, that is of the Jones Model refinement (1991) as total accruals computed as (Δ current asset – Δ cash) – (Δ current liabilities – Δ short term debt and current portion of long-term debt) – depreciation, where the change (Δ) is calculated between time t and t-1.

Independent variables

SN	Variables	Model	Measurement
1	Audit committee independence	ACI	Number of independent auditors
2	Audit committee size	ACS	Number of audit committee members
3	Audit committee gender diversity	ACGD	Ratio of female to total membership of audit committee
4	Audit committee busyness	ACB	number of times the committee has meetings (including emergency meetings) in a year

5	Audit Committee Competency	ACC	percentage of members who have skill in accounting and financial
6	Audit quality	AQ	Presence of the Big 4 as auditors

The variables are in decimal values, which is a suitable ratio for linear regression analysis. The model is anchored on the work of Oziegbe and Ofe(2020), which employed Audit Committee Size (ACS), Audit Committee Frequency of meeting (ACFM), Gender Diversity (ACGD), Audit Committee Independence (ACI), Audit Committee Financial Expertise (ACFE) as the independent variables with Firm age as the control variable. The present study adapted these independent variables by removing the firm age, but however moderated them in line with Masmoudi (2021) using the Big 4 auditors as an indicator of quality auditors that invariably influences quality financial reporting.

The present model is: FRQ = f(ACI, ACS, ACGD, ACB, ACC, AQ), which is rewritten in an equation form as:

$FRQ = \beta_0 + \beta_1 ACI + \beta_2 ACS + \beta_3 ACGD + \beta_4 ACB + \beta_5 ACC + \beta_6 AQ + \mu$ Eq 1

Where: β_0 is the constant, while β_{1-6} are the coefficients of regression for ACI, ACS, ACGD, ACB, ACC and AQ respectively; and μ is the error term.

The moderation effect of audit quality was captured using the interaction terms between audit quality and each of the independent variables as follows:

$FRQ = \beta_0 + \beta_1 ACI + \beta_2 ACS + \beta_3 ACGD + \beta_4 ACB + \beta_5 ACC + \alpha_1 ACI*AQ + \alpha_2 ACS*AQ + \alpha_3 ACDG*AQ + \alpha_4 ACB*AQ + \alpha_5 ACC*AQ + \mu$ Eq 2

Where:

ACI*AQ = moderating effect of audit quality on audit committee independence.

ACS*AQ = moderating effect of audit quality on audit committee size.

ACGD*AQ = moderating effect of audit quality on audit committee gender diversity.

ACB*AQ = moderating effect of audit quality on audit committee busyness.

ACC*AQ = moderating effect of audit quality on audit committee competence.

The theoretical expectations are positive relationships between audit committee variables and financial reporting quality. The model, expressed as multiple panel regression, was analysed using the Quantile Regression technique.

Results and Discussion

This section analyses the data and explains the research findings in line with the objectives of the study, beginning with the preliminary analysis and then model estimation. The research output serves to elucidate the policy implications of each finding.

Table 1: Results of the analysis of Descriptive Statistics of the Variables

Variables	Mean	Standard Deviation	Skewness	Kurtosis	Jarque-Bera (Prob)
FRQ	0.73	1.01	2.81	13.95	4227.45 (0.00)
ACI	0.91	5.03	12.79	164.97	750692.90 (0.00)
ACS	0.38	0.17	1.03	5.51	293.72 (0.00)
ACGD	0.38	0.19	0.77	3.16	66.25 (0.00)
ACB	0.50	0.26	6.14	97.69	254544.9 (0.00)
ACC	0.46	0.22	0.63	2.92	44.01 (0.00)
AQ	0.27	0.45	1.01	2.02	140.71 (0.00)

The results of the mean, standard deviation, skewness, kurtosis, and Jarque-Bera statistics are shown on Table 1 above. The standard deviation for ACI is high, which implies significant variations in the number of audit committee independence across the non-financial firms in Nigeria. The ACI and ACB exhibited high values of skewness and kurtosis suggesting outliers which implies that there is a wide disparity the practice of independent audit committee members and the number of audit committee meetings in the non-financial firms in Nigeria. The Jarque-Bera statistics indicate p.values less than 0.05 confirming that all the variables for the study do not have normal distribution. This non-normality of the variables can impact the reliability of statistical tests and model assumptions that rely on normality. Hence the study adopted the Quantile Regression technique to capture the different parts of the conditional distribution of the dependent variable, making it less sensitive to outliers and non-normality.

Model Estimation

The FRQ was grouped into three qualities where quartile 0.25 represent firms with low reporting standards, 0.50 as moderate reporting standards and 0.75 is the bound for firms with high reporting standards. The quantile regression was performed using the SPSS 26 version.

Table 2: Model Quality Analyzing the cumulative relationship between audit committee characteristics and FRQ

	Pseudo R Squared	**Mean Absolute Error (MAE)**
q=0.25	.008	.533
q=0.5	.001	.486
q=0.75	.010	.569

Dependent Variable: FRQ
Model: (Intercept), ACI, ACS, ACGD, ACB, ACC, AQ*ACI, AQ*ACS, AQ*ACGD, AQ*ACB, AQ*ACC
Method: Simplex algorithm

The Pseudo R-Squared is the measure of the explanatory power of audit committee characteristics for each quantile of the dependent variable (FRQ). The results 0,008, 0.001 and 0.01 for low, moderate and high financial reporting firms, respectively, indicate that audit committee characteristics account for minimal variance across the quantiles, which suggests that the predictors and moderating variables from the audit quality (AQ) are weak determiners of the FRQ of non-financial firms in Nigeria. Though the low MAE at the q=0.50 indicates that the median quantile model does somewhat better in minimising prediction errors compared to others, the relative nearness in the MAE across quantiles suggests that all the non-financial firms across various financial reporting standards share similar predictive performance. Generally, the low values of the Pseudo R-Squared across all quantiles imply that audit characteristics captured in the model do not strongly explain variations in FRQ in non-financial firms in Nigeria.

Table 3: Coefficients of audit committee characteristics on FRQ

	0.25			0.50			0.75		
Parameter	Coef	t	Sig.	Coef	t	Sig.	Coef	T	Sig.
(Intercept)	.236	4.916	.000	.450	8.739	.000	.823	7.077	.000
Main Effect									
ACB	.059	1.009	.313	.027	.427	.669	-.097	-.682	.496
ACGD	-.311	-2.858	.004	-.013	-.108	.914	-.043	-.163	.871
ACC	.039	.463	.643	.003	.031	.976	-.043	-.211	.833
ACI	.092	.943	.346	-.013	-.128	.898	-.298	- 1.266	.206
ACS	.131	1.111	.267	-.004	-.032	.975	.680	2.381	.018
Interaction									
AQ * ACB	-.148	-1.778	.026	-.027	-.298	.765	-.012	-.060	.952
AQ * ACGD	.360	2.910	.004	.013	.096	.924	.188	.628	.530
AQ * ACC	.064	.652	.514	-.003	-.027	.978	-.063	-.267	.789
AQ* ACI	-.093	-.958	.338	.014	.131	.896	.297	1.258	.209
AQ* ACS	-.071	-.533	.594	.004	.028	.978	-.888	- 2.737	.006

The results in Table 3 provide the parameters of the estimates for the lower (q=0.25), median (q=0.50), and upper (q=0.75) quantiles including the coefficients (Coef), t-statistics (t), and significance levels (Sig.), to explain the relationship between audit committee characteristics and financial reporting quality (FRQ). The results address the specific objectives of the study.

The coefficients of Audit Committee Busyness (ACB) at the lower, median, and upper quantiles are 0.059, 0.027, and -0.097, respectively. These results indicate a positive relationship between ACB and financial reporting quality (FRQ) at the lower (q=0.25) and median (q=0.50) quantiles but a negative relationship at the upper (q=0.75) quantile. This suggests that non-financial firms with lower or moderate levels of financial reporting standard experience a positive impact from ACB, while those with higher levels experience a negative impact. The t-statistics at the various quantiles had p-values greater than the 0.05 level of significance and thus do not reject the null hypothesis that "Audit committee busyness does not have a significant effect on the quality of financial reporting." This implies that ACB does not have a significant impact on FRQ across all quantiles in Nigerian non-financial firms. The interactive coefficient (AQ * ACB) showed that the lower quantile became negative and statistically significant (coef. - 0.148, p-value - 0.026). This implies that, as the firms operating at lower financial standards employ the services of bigger auditors, audit committee busyness becomes counterproductive to the quality of the financial reporting.

The regression coefficients for ACGD at the lower (q=0.25), median (q=0.50), and upper (q=0.75) quantiles are -0.311, -0.013, and -0.043, indicate a negative relationship between ACGD and FRQ across all quantile categories. This means that a unit increase in the number of female members on the audit committee is associated with a decline in the financial reporting quality of non-financial firms. However, this is only significant at the upper quantile (p=0.004), indicating thatfor firms with lower financial reporting standards, gender diversity has a significant negative effect on their financial reporting quality. The interaction of audit quality (AQ*ACGD) revealed a significant positive effect (0.360, p-value = 0.004) at the lower quantile (q=0.25), indicating that the presence of a Big 4 auditor magnifies the positive influence of female representation on the audit committee for non-financial firms with low reporting standards. The interactive coefficients became positive at median (q=0.50) and upper (q=0.75) but not statistically significant (Sig. > 0.05), suggesting that the presence of audit quality has the propensity, but does not significantly intervene in moderating financial reporting quality of non-financial firms operating at moderate and higher financial reporting standards. This succinctly implies that audit quality enhances the positive impact of increasing female presence on the financial reporting quality for only the non-financial firms with lower financial reporting standards in Nigeria.

The coefficients for ACC are 0.039, 0.003, and -0.043 for the lower, median, and upper quantiles, respectively. These values suggest that audit committee competence has a positive impact on FRQ in firms with low and moderate reporting standards but a negative effect on firms with higher reporting standards. This is indicative that a unit increase in ACC is associated with a 3.9% and 0.3% boost in FRQ for firms at the lower and median quantiles, respectively, but a 4.3% decline in FRQ for firms at the upper quantile. The corresponding p-values for the t-statistics across all the quantiles are greater than the 0.05 threshold for statistical significance, which implies that audit committee competence does not have a significant effect on FRQ for firms across all levels of reporting standards. Moreover, the interaction of audit quality does not change this result. Thus, the use of bigger and better-reputed audit firms does not improve the effect of the competence of the audit committee members on the financial reporting quality of non-financial firms in Nigeria.

The coefficients of ACI are not statistically significant across all the quantiles (p. > 0.05). The coefficient is positive at the lower quantile but negative at the median and upper quantiles, respectively. The values for the interaction effect (AQ* ACI) become negative at the lower quantile and positive at the median and upper quantiles, respectively, at a p-value less than 0.05 level of significance. This implies that audit committee independence does not significantly impact the financial reporting quality of non-financial firms in Nigeria. This connotes that audit committee independence is not a key determinant of financial reporting quality in Nigerian non-financial firms. This is true despite the external quality of auditors across all the quantiles.

The coefficients of ACS lower (0.25), median (0.050), and upper (0.75) quantilesare 0.131, -0.004, and 0.680, respectively. This means that for firms at the lower and upper quantiles, the size of the audit committee has a positive relationship with the financial reporting quality. This implies that the size of the audit committee for non-financial firms with lower and higher reporting standards tends to improve their financial reporting quality, whereas those with moderate (median) reporting standards instigate poorer financial reporting. The respective t-statistics had p-values of 0.267, 0.975, and 0.018, where only firms at the upper quantile are statistically significant. Thus, for firms with lower (0.25 quantile) and median (0.50 quantile) financial reporting standards, audit committee size (ACS) does not have a significant relationship with financial reporting quality (FRQ), but firms withhigher financial reporting standards (0.75 quantile), showed the effect of ACS to be both statistically significant and positive. These finding highlights that increasing the size of the audit committee has a more pronounced and meaningful impact on improving FRQ for firms that already operate at higher reporting standards. Moreover, the interactive coefficients (AQ* ACS) reveal that audit quality dampens this positive effect of committee size for firms with higher financial reporting standards. The coefficient (-0.888, p-value = 0.006) indicates that audit quality interacts to create a negative impact on the relationship between audit committee size and financial reporting quality. This means that the presence of a non-Big 4 auditor mitigates the positive impact of a large audit committee.

Discussion of Findings

At lower and median levels of financial reporting standards, a busier audit committee had a weak positive and insignificant influence on financial reporting quality. On the other hand, at higher levels of financial reporting standards, audit committee busyness showed a slight negative, yet insignificant effect. This aligns with the positions of Orife et al. (2022) and Akanbi et al. (2022), that committee business has no significant effect on the FRQ of firms. This implies that increasing committee responsibilities and frequency of meetings would result in a negligible effect on the financial reporting quality of non-financial firms in Nigeria. These results can be influenced by factors including the complexity of the audit committees or the availability of internal control mechanisms that could ensure FRQ despite committee busyness. However, Odjaremu and Jeroh (2019) reported a negative relationship between ACB and FRQ, arguing that engagement in multiple roles could affect the time and attention devoted to financial oversight functions, leading to declining financial reporting quality. This is true for the non-financial firms that operate at low and moderate financial standards in Nigeria. Against the argument of the agency theory that monitoring is pertinent to financial reporting quality, this study has averred that audit committees do not necessarily require multiple engagements and frequent meetings to improve the financial reporting quality of non-financial firms in Nigeria.

The outcome of the ACGD showed a negative effect on FRQ across all levels of financial reporting standards, but only statistically significant for the firms with low financial reporting standards in Nigeria, suggesting that increasing female representation in audit committees would have adverse effects on the FRQ for non-financial firms with weaker reporting standards. Some critical factors that could trigger such a result are appointing a female committee member who lacks the necessary experience and expertise, or is biased with gender stereotypes or is maligned by company culture or weak governance structures that are not structured to harness the benefits of gender diversity. This result contrasts with some studies that report positive effects of gender diversity, but it is also in line with others that identify context-specific challenges. The findings that ACGD negatively impacts FRQ in firms with lower reporting standards align with studies such as Mwangi (2023), who similarly reported that gender diversity could be detrimental in firms with weaker governance structures or lower financial reporting quality. This suggests that while gender diversity can offer benefits in terms of diverse perspectives and improved decision-making in some contexts, it may also present challenges when governance practices are underdeveloped or when committee members, particularly female members, lack experience or influence. In contrast, Olowookere et al. (2021) suggest that gender diversity in audit committees can lead to improved financial reporting quality. They argue that diverse perspectives, decision-making approaches, and a broader range of skills contribute to more effective oversight and higher-quality financial reporting. This present study which posits a negative relationship, stands in contrast to this view, suggesting that gender diversity, when not properly supported by expertise or governance, may have unintended negative effects. This could reflect the specific challenges faced by firms with lower reporting standards or weaker governance structures in Nigeria.

The study revealed a complex and non-significant relationship between audit committee competence (ACC) and financial reporting quality (FRQ) across different levels of financial reporting standards. Despite the non-significance of the effects recorded, the positive effect for firms with lower and moderate reporting standards, and a negative effect for firms with higher reporting standards, suggests that these patterns could be due to chance rather than potential determinants of FRQ in non-financial firms in Nigeria. It is expected that audit committee competence is a sound corporate governance practice; this study asserts that it is not a guaranteed strategy for improving financial reporting quality for firms in all cases of financial standards. The outcome of this study has implications for agency theory and stakeholder theory. From the perspective of agency theory, audit committees are expected to monitor the management on behalf of shareholders, ensuring that financial reporting is accurate and reliable. While a competent audit committee is expected to improve financial reporting, the study found that the relationship between ACC and FRQ was not statistically significant. This suggests that even though the audit committee plays a critical role in oversight, its competence alone may not be sufficient to drive improvements in financial reporting quality. This portends that factors such as internal controls and a strong regulatory environment are equally necessary to complement the efforts of the audit committee. This also aligns with the proportion of the stakeholder theory that financial reporting should meet the expectations of various stakeholders, including investors and regulators, is not a sufficient condition for FRQ. Despite ensuring a high-quality financial reporting, non-financial firms should ensure to meet stakeholders' needs.

On the result of the Audit Committee Independence (ACI) and financial reporting quality (FRQ) nexus for non-financial firms in Nigeria, it was found to be heterogeneous, with varying magnitudes and directions, but no significant influence across firms with different levels of financial reporting standards. This indicates that audit committee independence, on its own, does not significantly impact the quality of financial reporting in Nigerian firms. Many prior studies have reported a positive relationship between ACI and FRQ. For example, Damayanti et al. (2023) demonstrated that ACI significantly enhances FRQ, particularly when moderated by high Audit Quality (AQ), emphasising the role of external auditors in strengthening governance outcomes. Similarly, studies by Qader et al. (2023) and Ojuwa and Mwangi (2023) found that independent audit committees are more likely to oversee and ensure accurate financial reporting due to their objectivity and reduced conflicts of interest. However, not all studies reach this conclusion. Akanbi et al. (2022) and Orife et al. (2022) presented mixed or insignificant results, suggesting that the effectiveness of ACI may depend on contextual factors such as the industry, governance quality, or firm-specific conditions. Furthermore, Masmoudi (2021) highlighted that AQ moderates the ACI-FRQ relationship, amplifying the positive impact of independence when external auditors are competent and reliable. The observed heterogeneity suggests that while audit committee independence is designed to align managerial behaviour with shareholders' interests, its effectiveness depends on several contextual factors, including financial reporting standards, firm-specific governance dynamics, and regulatory enforcement. In the Nigerian context, the lack of significant influence may reflect weaker enforcement of independence, superficial board appointments, or compromised independence due to cultural and relational dynamics. Thus, the assumption of the agency theory that independent audit committees inherently mitigate managerial opportunism does not appear universally applicable, particularly in less-developed corporate governance environments like Nigeria. From a stakeholder theory perspective, financial reporting quality is vital for maintaining trust and transparency across a wide array of stakeholders. However, the findings of this study reveal that audit committee independence alone does not strongly influence FRQ, highlighting potential shortcomings in meeting stakeholders' expectations for accountability and governance. Firms with robust financial reporting standards may partially fulfill stakeholder demands, regardless of audit committee independence, while those with weaker standards may not derive significant benefits from an independent audit committee due to other governance shortcomings. Stakeholder theory emphasizes a broader responsibility for firms to implement comprehensive governance mechanisms. The lack of significant impact of audit committee independence underscores the need for a holistic approach to governance rather than over-reliance on a single oversight mechanism.

The result of the Audit Committee Size (ACS) on FRQ is positive and statistically significant for the non-financial firms operating at higher reporting standards in Nigeria. This implies that large audit committee size can enhance financial reporting quality, but this is dependent on the existing level of reporting standards. In firms with high financial standards, a larger audit committee comes with greater diversity of opinion, expertise, and supervisory capabilities, which collectively add up to further improve financial reporting quality. On the contrary, in firms with lower or moderate reporting standards, increasing the size of the audit committee is adequate to cause a meaningful improvement in financial reporting quality. In such situations, some secondary factors such as the competence and expertise of committee members, the strength of the overall governance environment, and the firm's commitment to transparency may play a more crucial role in improving financial reporting quality. Several studies have examined the relationship between ACS and FRQ, producing mixed results: Agyei-Mensah (2022) and Kabiru & Usman (2021) reported a positive relationship between ACS and FRQ, emphasising that larger audit committees provide diverse expertise, improved monitoring, and better oversight. These studies align with the current findings for firms operating at higher reporting standards in Nigeria. In such firms, larger committees likely have access to more specialised knowledge, enabling them to produce better financial reporting quality. On the other hand, studies such as Bazhair (2022) and Duru et al. (2019) found a negative relationship between ACS and FRQ, emphasising that too large audit committees may create difficulties in coordination, inefficiencies in operation, and dilution of responsibility, which can hinder the oversight process. This is in contrast with the positive effects for firms with high reporting standards as seen in the present study. It is hence noteworthy that the benefits of having larger audit committees largely depend on the effectiveness of the existing financial reporting framework of the firm. For firms with weaker reporting practices, the most effective means of improving financial reporting outcomes might be to prioritise quality and effective governance mechanisms, rather than increasing the size of the audit committee. This finding reconciles the positive views of Agyei-Mensah (2022) and Kabiru & Usman (2021) with the concerns raised by Bazhair (2022) and Duru et al. (2019), suggesting that the effectiveness of audit committee size depends on the governance framework and reporting environment of the firm.

These discussions tend to posit that high audit quality should be considered when addressing the audit committee and the financial reporting quality of firms. The present study showed that high-quality audits magnify the positive impact of audit committee gender diversity (ACGD) on FRQ for firms with lower financial reporting standards. This suggests that when firms have robust audit quality, they stand to enjoy the benefits of having enhanced gender diversity on audit committees, such as diverse perspectives and improved decision-making, which will contribute to better financial reporting outcomes. Conversely, firms with higher financial reporting standards, high-quality audits will reduce the positive effect of larger audit committees on FRQ. This implies that while larger audit committees can enhance reporting quality by providing greater oversight and expertise, the incremental benefits are diminished when audit quality is already high. In such cases, the audit process itself becomes central to maintaining reporting integrity, reducing reliance on committee size. These findings highlight the critical importance of audit quality in influencing the effectiveness of audit committee characteristics. While factors like gender diversity and committee size can impact FRQ, their effects are highly context-specific and dependent on the quality of the audit process.

Overall, the study highlights the complex and context-dependent nature of the relationship between audit committee characteristics, audit quality, and financial reporting quality. While factors such as gender diversity, size, independence, and busyness of audit committees influence FRQ to varying extents, audit quality serves as a critical moderating force. The findings emphasise that a one-size-fits-all approach to improving FRQ is ineffective. Instead, firms must adopt a holistic and context-specific governance strategy, recognising that audit committee characteristics alone are insufficient and that audit quality remains a central pillar in achieving improved financial reporting outcomes.

This relatively aligns with previous studies. For instance, extant studies averred that AQ consistently emerges as a key moderator in many studies, influencing the relationship between audit committee characteristics and FRQ. However, while previous studies post that AQ improves the positive effects of committee characteristics like ACI and ACC, especially in firms with higher reporting standards (Masmoudi, 2021), the present study found no moderating effects on these variables rather on ACS and ACGD. On the other hand, it rightly agreed with some previous studies that AQ dampens the effects of characteristics like ACS and ACGD, particularly in firms with lower reporting standards (Damayanti et al., 2023). This suggests that AQ does not merely enhance the reliability of financial reports but also shapes how audit committee characteristics translate into improved financial reporting outcomes. High audit quality appears to be particularly valuable in firms with less robust internal reporting structures, where it can offset shortcomings in committee functioning.

The findings of this study also have implications for the agency, stakeholder and managerial hegemony theories. Agency theory assumes audit committees reduce agency costs by monitoring management; however, the study challenges this by showing that characteristics like independence, size, and busyness do not consistently improve FRQ. For instance, audit committee independence (ACI) has a limited effect, suggesting that structural independence alone cannot always mitigate managerial opportunism. Larger audit committees (ACS) also fail to significantly improve FRQ in firms with weaker reporting standards. However, audit quality plays a critical role, strengthening the oversight function and improving FRQ where other governance mechanisms are insufficient. Stakeholder theory emphasises transparency and accountability to meet stakeholder expectations. The study highlights that audit quality amplifies the benefits of audit committee gender diversity (ACGD) in firms with lower reporting standards, enabling better oversight and reporting outcomes. However, inconsistencies in the effectiveness of other characteristics, like size and independence, indicate that a holistic approach, integrating audit quality, is necessary to address governance gaps. Managerial hegemony theory suggests that management dominates governance structures, limiting audit committees' effectiveness. This is reflected in the limited impact of independence and the negative effects of gender diversity in weaker reporting environments, likely due to relational challenges or biases. Nevertheless, strong audit quality can counterbalance managerial dominance and improve committee effectiveness. Overall, the study underscores the context-dependent nature of these relationships, emphasising the critical role of audit quality in enhancing governance mechanisms and improving financial reporting outcomes.

The study thus recommended, among others, that firms can mitigate the negative impact of gender diversity by ensuring that highly qualified female directors selected with strong financial expertise and relevant industry experience are selected into the audit committee and existing ones are trains via workshops, and conferences and mentorship programs. It also recommended the use of mandatory rotation of audit partners to reduce familiarity bias and entrust audit independence in the committee. It is equally pertinent to observe that AQ is a significant influence on the FRQ and hence selecting high-quality auditors would engender effective audit committee oversight, transparency and accountability.

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