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THE EFFECT OF AUDIT COMMITTEE FINANCIAL EXPERTISE AND AUDIT COMMITTEE INDEPENDENCE ON FINANCIAL REPORTING QUALITY OF LISTED INDUSTRIAL GOODS COMPANIES IN NIGERIA

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Abstract
The study examined effect of audit committee financial expertise and audit committee independence on financial reporting quality of listed industrial goods companies in Nigeria. The study adopted an ex-post facto research design and relied on secondary data extracted from the annual reports of thirteen (13) listed industrial goods firms on the Nigerian Exchange Group over a ten-year period from 2015 to 2024. Financial reporting quality was measured using accrual-based indicators, while audit committee attributes were captured through the proportion of financially knowledgeable and independent members. Data were analyzed using panel dynamic regression based on the Generalized Method of Moments (GMM) technique to address endogeneity and unobserved firm-specific effects. The findings revealed that financial reporting quality exhibits significant persistence over time. More importantly, audit committee financial expertise and audit committee independence were found to have positive and statistically significant effects on financial reporting quality. This implies that firms with knowledgeable and independent audit committees are more likely to produce credible, reliable, and transparent financial reports. The study concludes that strengthening audit committee structures is crucial for improving financial reporting quality in Nigeria and recommends stricter regulatory enforcement and capacity building for audit committee members.

Keywords: Financial reporting quality, audit committee financial expertise, audit committee independence.

1.0 Introduction

Financial reporting quality (FRQ) remains a critical concern in Nigeria's corporate sector, particularly among listed industrial goods companies, where transparency and accountability are essential for investor confidence and efficient capital market functioning. Despite regulatory frameworks such as the Nigerian Code of Corporate Governance and provisions of CAMA (2020), incidences of earnings manipulation, misstatements, and weak disclosure practices persist, raising concerns about the effectiveness of internal governance mechanisms,

especially audit committees. However, the sector has been plagued by cases of poor financial disclosures, earnings management, and reporting delays, raising serious concerns about the effectiveness of corporate governance mechanisms put in place to safeguard stakeholder interests. Despite the existence of regulatory frameworks such as the Nigerian Code of Corporate Governance (2018), the Companies and Allied Matters Act (CAMA, 2020), and Securities and Exchange Commission (SEC) guidelines, the level of compliance among listed industrial goods companies remains inconsistent. According to the Financial Reporting Council of Nigeria (FRCN, 2022), over 40% of industrial goods firms exhibited governance weaknesses, particularly in board independence, audit committee oversight, and ownership structure, leading to significant lapses in financial reporting quality. These weaknesses manifest in earnings manipulations, overstated profits, delayed financial disclosures, and restatements, which erode investor confidence and negatively impact capital market performance.

Globally and regionally, sound corporate governance practices have been identified as key determinants of high-quality financial reporting. Studies show that effective board structures, gender diversity, robust audit committees, and dispersed ownership significantly reduce financial reporting irregularities and enhance transparency (KPMG, 2023; Naidoo & Du Toit, 2022). However, in Nigeria, the industrial sector is characterized by concentrated ownership dominated by family or institutional block holders limited female representation on boards, and ineffective audit committees lacking financial expertise. These governance challenges create room for managerial opportunism, reduced board oversight, and compromised financial disclosures. Furthermore, the Nigerian industrial sector's exposure to foreign investments and its significant contribution to GDP necessitate high standards of financial reporting to attract and retain investors. Yet, reports from the Nigerian Exchange Group (2023) indicate persistent delays in the submission of audited financial statements by several industrial goods companies, fuelling speculations of financial misstatements and weak governance oversight.

The lack of empirical consensus on the specific governance mechanisms that most significantly impact financial reporting quality in Nigeria's industrial goods sector creates a research gap. While some studies have focused on the banking and oil sectors, the industrial goods sector despite its strategic importance has received limited scholarly attention. Most prior studies on corporate governance and financial reporting quality in Nigeria have focused on data periods that are either outdated or did not capture recent regulatory reforms, such as the introduction of the Nigerian Code of Corporate Governance (NCCG) 2018 and the amended Companies and Allied Matters Act (CAMA) 2020. For instance, studies like Uadiale (2012) and Ofoegbu et al. (2018) utilized data sets covering periods between 2005 and 2015, missing the potential impact of these newer regulations aimed at strengthening corporate governance practices and enhancing financial reporting quality. Given the dynamic nature of corporate governance regulations, financial reporting standards, and Nigeria's economic environment, studies covering more recent periods (post-2018) are essential to provide updated empirical evidence. This study seeks to address this period gap by examining a contemporary dataset that reflects the influence of recent governance reforms on financial reporting quality in the industrial goods sector.

Many existing studies have primarily focused on limited governance variables such as board size, board independence, and audit committee characteristics, while neglecting other relevant governance attributes like board gender diversity, audit committee financial expertise, ownership concentration, and board meetings. These variables are critical, especially in the

Nigerian context, where ownership is highly concentrated, and female participation in corporate boards remains low. For example, research by Okolie et al. (2014) and Adebayo and Olayinka (2019) largely omitted gender diversity and audit committee financial expertise, which recent studies (e.g., KPMG, 2023) have identified as significant predictors of financial reporting quality. By integrating these overlooked variables, this study fills the variable gap and provides a more robust understanding of how diverse governance mechanisms influence financial reporting quality.

Most Nigerian studies examining corporate governance and financial reporting quality have centered around financial institutions, particularly deposit money banks and insurance companies, due to their regulatory sensitivity. Sectors such as the oil and gas and consumer goods industries have also received research attention. However, there is a significant scarcity of research focusing specifically on the industrial goods sector, which includes cement, building materials, chemicals, and packaging companies. This sector is vital to Nigeria's industrialization and economic development but remains underexplored in governance-related studies. The industrial goods sector's peculiarities capital intensity, ownership structure, and susceptibility to regulatory and operational risks necessitate sector-specific research.

Several existing studies on the subject rely heavily on descriptive statistics or simple regression models without adequately addressing endogeneity problems, multicollinearity, or applying robust estimation techniques that ensure the validity and reliability of findings. For instance, studies like Ofoegbu et al. (2018) and Uwuigbe (2013) employed ordinary least squares (OLS) regression without considering firm-specific effects or dynamic relationships. Moreover, there is limited application of panel data methodologies that control for heterogeneity across firms and time effects in the Nigerian context. The absence of these advanced techniques raises concerns about the accuracy of their conclusions regarding the causal relationship between corporate governance mechanisms and financial reporting quality. This study intends to fill this methodological gap by adopting a panel data regression technique, potentially using models such as fixed effects, random effects, or Generalized Method of Moments (GMM) to provide more reliable and valid results while controlling for firm-specific and temporal effects.

This study, therefore, seeks to fill this gap by examining how various corporate governance mechanisms, including board size, board independence, board gender diversity, audit committee independence, audit committee financial expertise, ownership concentration, and board meetings, affect the financial reporting quality of listed industrial goods companies in Nigeria.

Hypotheses

H_{01}: Audit committee financial expertise has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria;

H_{02}: Audit committee independence has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria.

Financial Reporting Quality

Financial reporting quality is of extensive intrigue to all potential and existing investor and therefore it cannot be overemphasized (Akeju & Babatunde, 2017). The financial statement of any firm is expected to have the required qualitative attributes as stated by International Financial Reporting Standards, which include relevance, comparability, timeliness, understandability, faithful representation and verifiability. Verdi (2006) defines financial

reporting quality as the exact way it shows information as regards a business activity and its anticipated cash flows, with the aim of informing the shareholders about a company`s operations. Financial reporting quality also refers to the degree in which financial statement provides us with information that is fair and authentic about the financial position and performance of an enterprise (Tang, Chen & Zhijun, 2008).

Ahmed (2012) posited that financial report was relevant if it was capable of influencing decision makers by helping them to form predictions about the outcomes of past, present and future events or confirm or correct prior expectations. Platikanova and Perramon (2012) argued that the quality of information was high if users were able to identify similarities in and differences between two sets of economic phenomena, referring to the fact that IFRS is proposed to eliminate informational externalities arising from lack of comparability. Aifuwa and Embele (2019) posited that financial reporting quality was the faithfulness of information conveyed in both financial and non-financial reporting processes.

Corporate Governance

The term corporate governance stemmed from the Greek word kyberman, which means to direct, control or govern (Ayandele & Emmanuel, 2013). Corporate governance denotes the principles, procedures, or regulations to manage, supervise, and regulate business.

Audit Committee Financial Expertise

Financial expertise means the ability to analyse and interpret a full set of financial statements including the notes attached thereto, in accordance with generally accepted accounting principles. The importance of audit committee expertise within the firm has been suppressed by the Sarbanes-Oxley Act (2002), in Nigeria SEC code of CG (2003 & 2011), CBN code of CG (2006) and FRC (2018) stressed that the audit committee should have experience in financial and accounting fields. Audit committee financial expertise refers to the presence of members on the audit committee who possess knowledge, qualifications, or professional experience in accounting, finance, auditing, or related fields.

Audit Committee Independence

Okolie (2014) defined audit independence as an auditor’s un-biasedness in taking decisions during an audit. Soliman and Ragab (2014) and Abdulhakim (2018) have seen the independence of the committee as vital if the committee is to be able to perform its duty diligently. Code of Corporate Governance (2011) further reiterates that for the audit committee to be fully independent and effective, majority of the members must be independent directors or non-executive directors.

Empirical Review

Audit Financial Expertise and Financial Reporting Quality

Zhang and Li (2022) studied Chinese listed companies over the period 2015-2019 to determine whether financial expertise among audit committee members curtails earnings manipulation. Applying a fixed effects regression model, the results revealed that audit committee members with accounting and finance backgrounds significantly reduced earnings management, thereby enhancing reporting quality. Nonetheless, the study’s limitation lies in its assumption that the mere presence of financial experts equates to effectiveness, without assessing their level of active participation or independence.

Musa and Ibrahim (2023) investigated deposit money banks in Nigeria to determine the role of audit committee financial expertise in strengthening financial reporting credibility. The study covered 2012–2021 and applied the generalized method of moments (GMM) to address potential endogeneity. Findings indicated that the presence of financial experts on the audit committee positively and significantly influenced financial reporting quality. The authors noted, however, that the benefits of expertise were more pronounced when combined with audit committee independence, highlighting the interactive effect of governance variables.

Adeyemi and Adebayo (2024) focused on listed oil and gas companies in Nigeria to test the moderating effect of financial expertise on the relationship between ownership concentration and financial reporting quality. Covering the period 2015-2022 and using panel regression analysis, the study established that audit committee financial expertise mitigates the negative effect of concentrated ownership on financial reporting quality. This underscores the importance of financial experts in protecting minority shareholders and promoting transparency. However, the study was limited by its industry-specific scope, which may restrict the generalizability of findings to other sectors.

Audit Independence and Financial Reporting Quality

Ajibola, et al., (2024) investigated the effect of audit committee and earnings management on financial reporting quality of quoted oil and gas firms in Nigeria. Ex-post facto research design was adopted. The population of the study was the nine oil and gas firms listed on the Nigerian Exchange (NGX) as at 31st December, 2022. The study employed the nine firms as sample size using the census sampling technique. Data were obtained from the audited annual financial reports of the firms for a period of 2010-2022. Panel least square (PLS) was used in analyzing the collected data. The study found that earnings management has significant negative effect on financial reporting quality and audit committee has insignificant effect on financial reporting quality. The moderating effect of audit committee independence was discovered to be significant over the relationship between earnings management and financial reporting quality using accruals as proxy of earnings management. The reverse was the result when earnings management was proxied with total assets and profit. The study concluded that earnings management is a significant underlying factor that can negatively influence the value of firms and cause decrease in its intrinsic value.

Abdulqawi et al. (2023) determined the effect of audit committee characteristics on the performance of the eleven insurance companies listed in Oman between 2015 and 2019. This study focuses on the audit committee meetings and their frequency, the size of the committee, their independence, and the knowledge or expertise they possess. After conducting data analysis on the specified dataset, the regression results revealed that audit committee size is statistically significant at a p-value less than .05. This indicates that the size of an audit committee has a significant impact on an insurance company's performance. In addition, the audit committee independence was statistically significant at p=.05, demonstrating that the independence of an audit committee plays a significant role in determining the performance of a company. Moreover, the Audit committee expertise variable had a p-value of less than 0.05, indicating that it is statistically significant. This can be interpreted as meaning that the frequency of meetings has a statistically significant impact on the performance of a company. The statistical significance of only three of the four variables was determined. The variable was excluded from the regression model because its p-value was greater than .05.

Uwuigbe, Ranti, and Bernard (2020) examined the effect of audit committee independence on the financial reporting quality of listed deposit money banks in Nigeria between 2012 and 2018. The study employed panel regression analysis and used discretionary accruals as a proxy for financial reporting quality. Their findings revealed that a higher proportion of independent audit committee members significantly improved the reliability of reported financial information, thereby reducing earnings management practices. The results provide evidence in support of the agency theory, which emphasizes the monitoring role of independent directors. Importantly, the study adds to the body of literature in a developing economy context, where regulatory enforcement is often weak, making governance mechanisms even more critical. However, the study relied solely on accrual-based measures, which may not fully capture the qualitative aspects of reporting such as timeliness and transparency. This methodological choice limits the comprehensiveness of the results. Furthermore, the focus on the banking sector may constrain generalizability across industries with different governance dynamics. Despite these limitations, the study highlights the importance of independence in strengthening audit committees and enhancing financial reporting credibility in Nigeria.

Theoretical Framework

The Agency Theory was propounded by Jensen and Meckling in 1976 in their influential work Theory of the firm: Managerial behaviour, agency costs, and ownership structure. The theory has since become one of the most dominant lenses in explaining corporate governance practices and their impact on financial reporting quality. Agency theory explains the conflict of interest that arises between principals (owners or shareholders) and agents (managers) when the latter are entrusted to run the firm on behalf of the former. Managers may act opportunistically, pursuing personal interests such as empire building, excessive perks, or earnings manipulation rather than maximizing shareholder wealth (Jensen & Meckling, 1976). This divergence of interests creates agency costs, which include monitoring costs (borne by shareholders), bonding costs (incurred by managers to assure compliance), and residual loss (due to misalignment of interests).

Several contemporary studies have used agency theory to explain the governance–reporting nexus. Uwuigbe et al. (2021) applied the theory in their study of Nigerian listed firms and found that board independence and audit committee attributes reduce earnings management, aligning with agency theory's argument for stronger monitoring. Similarly, Musila and Muturi (2022) in Kenya showed that independent audit committees constrained opportunistic reporting, confirming the agency theory prediction.

3.0 Methodology

This study adopted an Ex-post facto research design. Ex-post facto research used data already collected, but not necessarily amassed for research purposes. The study used the entire population of thirteen (13) listed industrial goods companies in Nigeria for the study reflects a deliberate and comprehensive approach to research design. The study used secondary source of data collection. The data will be extracted from the annual reports and accounts of the sampled industrial goods companies in Nigeria, listed on the Nigerian Exchange Group and other relevant sources for a period of ten (10) years (2015 to 2024). The study used Generalized Method of Moments technique for data analysis.

For this study, models are specified and estimated.

$$FRQ = f(ACFEX, ACIND) \text{ ----------(1)}$$

$$FRQ_{it} = \beta_0 + \beta_1 FRQ_{it-1} + \beta_2 ACFEX_{it} + \beta_3 ACIND_{it} + \varepsilon_{it} \text{ ----------(2)}$$

Where:
FRQ= Financial Reporting Quality
ACFEX = Audit Committee Financial Expertise
ACIND = Audit Committee Independence
β_0= coefficient of the parameter estimates.
εt= Error term of company i in time t

Table 1:
Variables and their Measurement

Variables	sign	Measures	Source
Financial reporting quality	FV	Measured by use of accruals quality as a proxy for financial reporting which equals a change in current assets - change in cash - change in current liabilities + change in short term debt depreciation) /scaled by average total assets (A higher FRQ value indicates higher accruals quality and higher financial reporting quality)	Jerubet, Chepng'eno, & Tenai (2017)
Audit Committee Financial Expertise	ACFEX	Measured by Total number of members with accounting qualification, finance industry experience or membership of professional associations of audit committee	Moses et al (2016)
Audit Committee Independence	ACIND	Ratio of number of non-executive members to total number of audit committee	Madrigal et al (2015)

Source: Researchers computation, 2026.

Results and Discussion of Findings
Table 2:
Descriptive Statistics

	FRQ	ACFEX	ACIND
Mean	0.156322	0.131282	0.643303
Maximum	0.194210	0.400000	0.916667
Minimum	0.110750	0.000000	0.375000
Std. Dev.	0.018802	0.089139	0.092943
Skewness	-0.582861	-0.348395	-0.200685
Kurtosis	3.208693	2.583828	3.740146
Jarque-Bera	7.596672	3.568043	3.839950
Probability	0.022408	0.167961	0.146611
Observations	130	130	130

Source: Eviews Output, 2026.

The descriptive statistics in Table 2 provide insights into the behaviour of financial reporting quality (FRQ), audit committee financial expertise (ACFEX), and audit committee independence (ACIND) among the sampled firms. The mean value of FRQ is 0.156, indicating a moderate level of financial reporting quality across the companies, with relatively low variability as shown by the standard deviation of 0.019. ACFEX has a mean of 0.131, suggesting that, on average, only about 13% of audit committee members possess financial expertise, which reflects limited technical competence in many firms. ACIND records a higher

mean of 0.643, implying that most audit committees are largely independent. The skewness values indicate that all variables are slightly negatively skewed, meaning observations are clustered toward higher values. The Jarque-Bera test shows that FRQ deviates from normality, while ACFEX and ACIND are approximately normally distributed. The results suggest that although audit committees are generally independent, financial expertise remains relatively low, which may have implications for the quality of financial reporting.

Table 3:
Correlation Matrix

Correlation Probability	FRQ	ACFEX
ACFEX	0.194452 0.0266	
ACIND	0.551907 0.0000	0.082160 0.3527

Source: Eviews Output, 2026.

The correlation matrix in Table 3 shows the degree of association between financial reporting quality (FRQ), audit committee financial expertise (ACFEX), and audit committee independence (ACIND). The correlation between FRQ and ACFEX is 0.194, which is statistically significant at the 5% level, indicating a weak but significant positive relationship between audit committee financial expertise and financial reporting quality. This suggests that higher financial expertise on the audit committee is associated with FRQ, possibly reflecting the nature of the measurement employed. The relationship between FRQ and ACIND is stronger and positive (0.552), and highly significant, implying that greater audit committee independence is associated with improved financial reporting quality. The correlation between ACFEX and ACIND is positive but insignificant, showing that financial expertise and independence are largely independent attributes. The results indicate that audit committee independence plays a more dominant role in explaining variations in financial reporting quality than financial expertise.

Table 4.
Multicollinearity Test

Variable	Coefficient Variance	Centered VIF
ACFEX	0.000225	1.006796
ACIND	0.000207	1.006796

Source: Eviews Output, 2026.

The multicollinearity test results in Table 4 indicate that audit committee financial expertise (ACFEX) and audit committee independence (ACIND) do not suffer from multicollinearity problems. The variance inflation factor (VIF) values for both variables are approximately 1.01, which are far below the critical thresholds of 5 or 10 commonly used in empirical studies. This implies that the explanatory variables are not highly correlated and each contributes unique information to the model. From an econometric perspective, the absence of multicollinearity ensures that the regression coefficients are stable and reliable. It also means that the individual effects of ACFEX and ACIND on financial reporting quality can be interpreted independently without distortion. Overall, the result confirms that the model is well specified and suitable for further regression analysis.

Table 5:
Heteroskedasticity Test

Null hypothesis: Homoskedasticity			
F-statistic	1.076551	Prob. F(2,127)	0.3439
Obs*R-squared	2.167221	Prob. Chi-Square(2)	0.3384
Scaled explained SS	2.416255	Prob. Chi-Square(2)	0.2988

Source: Eviews Output, 2026.

The heteroskedasticity test results in Table 5 indicate that the null hypothesis of homoskedasticity cannot be rejected. The F-statistic of 1.0766 with a probability value of 0.3439, as well as the Obs*R-squared probability of 0.3384, are both above the 5% significance level. This implies that the variance of the error terms is constant across observations. From an econometric standpoint, the absence of heteroskedasticity suggests that the regression estimates are efficient and the standard errors are unbiased. Consequently, the statistical inferences drawn from the model are reliable.

Table 6.
Panel Dynamic Analysis Results

Dependent Variable: FRQ				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
FRQ(-1)	0.271079	0.023370	11.59941	0.0000
ACFEX	0.026967	0.006024	4.476599	0.0008
ACIND	0.023892	0.001345	17.76892	0.0000
J-statistic	10.57987	Instrument rank		13
Prob(J-statistic)	0.391172			

Source: Eviews Output, 2026.

The results from the dynamic panel analysis indicate that the lagged value of financial reporting quality (FRQ(-1)) is positive and highly significant (t = 11.60, p = 0.000), showing that past financial reporting quality strongly predicts current financial reporting quality, which reflects persistence in reporting practices across firms. This dynamic behaviour aligns with recent evidence that corporate reporting quality tends to exhibit stability over time, as firms build reputational capital and consistent disclosure practices (Liman & Abubakar, 2025).

Audit committee financial expertise (ACFEX) has a positive and statistically significant coefficient (t = 4.48, p = 0.0008). This suggests that higher levels of financial expertise within the audit committee are associated with enhanced financial reporting quality. Empirical research supports this finding, with studies in Nigeria showing that audit committee members with financial skills contribute positively to reducing earnings management and improving reporting outcomes. Similarly, global research indicates that audit committee expertise improves the credibility and reliability of reported financial information by strengthening oversight and technical analysis (Alshammari, 2025).

Audit committee independence (ACIND) also shows a positive and highly significant effect (t = 17.77, p = 0.000), implying that greater independence enhances financial reporting quality. This result is consistent with recent studies in Nigerian and other emerging markets that found independent audit committees play a vital role in monitoring management behaviour and limiting opportunistic reporting, a key aspect of agency theory (Liman & Abubakar, 2025).

Even though some sectoral studies suggest nuances (e.g., independence may be insignificant in banks under certain conditions), the broader literature confirms the positive governance impact of independence on reporting quality (Ote & Abraham, 2023).

The positive coefficients for both ACFEX and ACIND support theoretical expectations rooted in agency and stakeholder theories, which posit that audit committee members with relevant expertise and independence act as effective monitors, reducing information asymmetry and enhancing corporate transparency (Alshammari, 2025; Liman & Abubakar, 2025). These results also align with findings that stronger audit committee attributes are associated with lower discretionary accruals and higher financial reporting quality in manufacturing and consumer goods contexts.

Moreover, the J-statistic probability of 0.3912 indicates that the instruments used in the dynamic specification are valid, reinforcing the robustness of the model and suggesting that endogeneity concerns are appropriately addressed. This strengthens confidence that the observed relationships reflect genuine governance effects rather than spurious associations.
The evidence demonstrates that robust audit committee characteristics particularly financial expertise and independence are crucial determinants of financial reporting quality in the context of Nigerian firms. These findings resonate with the growing empirical consensus that governance mechanisms enhancing audit committee competence and objectivity contribute significantly to the credibility of corporate financial reports (Alshammari, 2025; Liman & Abubakar, 2025).

5.0 Conclusion and Recommendations

This study examined the effect of audit committee financial expertise and audit committee independence on financial reporting quality using a dynamic panel approach. The results show that financial reporting quality (FRQ) is persistent over time, as indicated by the positive and significant effect of its lagged value. Audit committee financial expertise (ACFEX) has a positive and significant impact on FRQ, implying that financially knowledgeable members enhance the credibility of financial reports. Similarly, audit committee independence (ACIND) significantly improves FRQ, indicating that independent oversight strengthens reporting integrity.

Based on the findings, it is recommended that firms should appoint audit committee members with strong financial and accounting expertise to improve monitoring effectiveness. Companies should maintain a high level of independence in audit committees to ensure objective oversight. Regulatory bodies such as the Financial Reporting Council of Nigeria should enforce compliance with governance requirements. Continuous training should be provided to audit committee members to enhance their effectiveness in financial reporting oversight.

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