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AUDIT COMMITTEE CHARACTERISTICS AND FINANCIAL REPORTING QUALITY IN DEVELOPING ECONOMIES: EVIDENCE FROM LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract *Financial reporting quality remains a pressing issue in developing economies where weak institutional frameworks heighten the risk of earnings manipulation, poor disclosure, and creative accounting. This paper investigates the impact of audit committee characteristics on financial reporting quality in listed Deposit Money Banks (DMBs) in Nigeria. The study adopts a conceptual and empirical approach, drawing on existing theories of corporate governance, agency theory, and stakeholder theory. Data from the Nigerian Exchange Group (NGX) and annual reports of listed DMBs are analyzed to determine how audit committee independence, size, financial expertise, and meeting frequency influence financial reporting quality. Findings indicate that audit committee independence and financial expertise significantly improve reporting quality, while committee size and meeting frequency show mixed results. The study concludes with policy recommendations for strengthening audit committee effectiveness in the Nigerian banking sector and other developing economies.*

Keywords Audit Committee, Financial Reporting Quality, Deposit Money Banks, Corporate Governance, Nigeria

1. Introduction

High-quality financial reporting is essential for maintaining investor confidence, enhancing market efficiency, and ensuring the stability of the financial system. In developing economies such as Nigeria, financial reporting practices are often undermined by governance challenges, weak institutional structures, and inadequate enforcement of accounting standards (Okafor & Arowoshegbe, 2021). To mitigate these concerns, audit committees have been mandated as a critical governance

mechanism, particularly in the banking sector, to oversee management's financial reporting processes and ensure compliance with International Financial Reporting Standards (IFRS).

Nigeria's Companies and Allied Matters Act (CAMA, 2020), the Financial Reporting Council of Nigeria (FRCN, 2018), and Central Bank of Nigeria (CBN) regulatory frameworks all emphasize the importance of audit committees in safeguarding the integrity of financial statements. However, despite these regulations, instances of financial misreporting persist, raising doubts about whether audit committees in Nigerian banks perform effectively beyond statutory compliance (Owolabi & Dada, 2020).

Listed Deposit Money Banks (DMBs) represent a critical case because of their systemic importance. They dominate the Nigerian capital market and play a pivotal role in financial intermediation. Yet, past scandals—such as loan misclassifications and earnings smoothing practices—underscore persistent challenges in achieving transparent reporting. This study therefore seeks to examine how audit committee characteristics influence financial reporting quality in listed Nigerian banks.

2. Literature Review

Conceptualization is central to clarifying how audit committee characteristics are theoretically and empirically linked to financial reporting quality (FRQ) within the context of corporate governance. In developing economies such as Nigeria, corporate governance structures are often fragile due to weak institutional frameworks, regulatory loopholes, and ownership concentration, making the role of the audit committee particularly significant (Umar, 2025).

Audit committee characteristics refer to measurable attributes that determine the committee's effectiveness in monitoring financial reporting processes. These typically include size, independence, financial expertise, diversity, diligence (meeting frequency), tenure, and gender composition (Olaoye & Bamidele, 2024).

- **Size of Audit Committee**: The number of members influences deliberation and oversight. Larger committees may enhance monitoring due to diverse perspectives, but excessive size may lead to free-rider problems and inefficiency (Boro & Newstyle, 2024).
- **Independence**: Independence implies that members are free from management influence, thereby improving objectivity in overseeing reporting processes. However, in Nigeria, the effectiveness of independence has been questioned due to political and familial ties in board appointments (Ogunsola, 2024).
- **Financial Expertise**: Members with accounting or financial knowledge improve the ability to detect misreporting or earnings management. Expertise is consistently linked with higher reporting quality in developed markets, but results in Nigeria have been mixed (Ola & Ijwo, 2023).
- **Gender and Diversity**: The inclusion of women and diverse backgrounds fosters multiple perspectives and ethical considerations, potentially strengthening oversight. Yet, some Nigerian studies show diversity effects

are statistically insignificant, partly due to tokenism in appointments (Orife et al., 2022).

- **Diligence (Meeting Frequency)**: Committees that meet more frequently may strengthen monitoring. However, Umar (2025) found that excessive meetings sometimes indicate reaction to crises rather than proactive governance, thereby negatively correlating with FRQ.

Financial Reporting Quality (FRQ)

FRQ is conceptualized as the degree to which financial statements provide accurate, relevant, timely, and faithful representations of a firm's financial position (Dechow, Ge, & Schrand, 2010). In empirical studies, FRQ is often measured through earnings management (discretionary accruals), earnings timeliness, persistence, relevance, or comparability (Olaoye & Bamidele, 2024). For Nigerian DMBs, timeliness and earnings management reduction are dominant proxies given regulatory concerns over misreporting and loan loss provisions (Ogunsola, 2024).

1.1.1 Linking Audit Committee Characteristics and FRQ

Theoretically, the Agency Theory provides the foundation: management (agents) may manipulate reports to maximize personal gain, while audit committees act as monitors on behalf of shareholders (principals). The Resource Dependence Theory suggests that expertise and diversity provide resources that strengthen oversight (Hillman & Dalziel, 2003). The Stewardship Theory counters by positing that managers are intrinsically motivated to act in the firm's best interest, making audit committee oversight complementary rather than adversarial.

In developing economies like Nigeria, the Institutional Theory is also relevant, as weak enforcement mechanisms often reduce the effectiveness of formal governance structures, implying that even well-structured audit committees may underperform if institutional environments are weak (Boro & Newstyle, 2024).

1.1.2 Contextual Considerations in Nigeria

Listed DMBs in Nigeria face unique challenges, including regulatory compliance pressures (CBN, SEC, and NSE rules), family ownership influence, political interference, and weak enforcement of corporate governance codes (Umar, 2025). Thus, while audit committees are mandated by law, their effectiveness in enhancing FRQ is not guaranteed. Empirical studies reveal inconsistent findings—some showing that audit committee attributes like expertise and activeness improve FRQ (Olaoye & Bamidele, 2024), while others suggest independence and meeting frequency may even harm quality due to compromised independence and crisis-driven oversight (Umar, 2025).

2.1 Theoretical Framework

- **Agency Theory** suggests that audit committees mitigate agency conflicts between managers and shareholders by monitoring financial reporting processes (Jensen & Meckling, 1976).
- **Resource Dependence Theory** highlights that audit committee

expertise and diversity provide strategic resources that enhance oversight quality (Hillman & Dalziel, 2003).

- **Stakeholder Theory** emphasizes the role of governance structures in ensuring transparency and accountability to multiple stakeholders beyond shareholders (Freeman, 1984).

2.2 Conceptual Review

Audit committee characteristics often studied include:

- **Independence:** Independent directors are more likely to provide unbiased oversight.
- **Size:** Larger committees may have diverse perspectives but risk inefficiency.
- **Financial Expertise:** Members with accounting/finance backgrounds improve technical oversight.
- **Meeting Frequency:** More frequent meetings may enhance monitoring but do not guarantee effectiveness.

Financial Reporting Quality (FRQ) is typically measured using indicators such as accruals quality, earnings management, timeliness of reporting, and compliance with IFRS (Dechow et al., 2010).

2.3 Empirical Review

Studies in advanced economies show that audit committee independence and financial expertise positively affect FRQ (DeFond & Zhang, 2014). In developing economies, findings are mixed:

- In Nigeria, Okolie (2014) found that audit committee independence improves FRQ in listed firms.
- Olayemi and Alade (2020) reported that financial expertise enhances earnings quality among Nigerian banks.
- However, Uwuigbe et al. (2018) found that audit committee size had no significant effect on FRQ, suggesting that effectiveness depends more on quality than quantity.
- Similar evidence from Ghana and Kenya indicates that while regulatory compliance is high, functional effectiveness is questionable (Agyemang-Mintah & Schadewitz, 2019).

3. Methodology

This study adopts a descriptive and empirical research design using secondary data from the annual reports of listed Nigerian Deposit Money Banks (2015–2022). A panel regression model is employed, with financial reporting quality (proxied by discretionary accruals and IFRS disclosure index) as the dependent variable, and audit committee characteristics (independence, size, expertise, and frequency of meetings) as independent variables.

The sample includes all 13 listed DMBs on the Nigerian Exchange Group (NGX). Data sources include CBN reports, FRCN publications, and audited financial statements.

4. Data Presentation and Analysis

Table 1: Descriptive Statistics of Audit Committee Characteristics (2015–2022)

Variable	Mean	Min	Max	Std. Dev.
Independence (%)	64.5	50	80	8.2
Size (No. of Members)	6.2	5	8	0.9
Financial Expertise (%)	42.7	20	70	12.4
Meeting Frequency	4.8	3	7	1.1
FRQ (Disclosure Index %)	76.3	65	88	5.7

Source: Author's computation (2023) based on NGX and Banks' Annual Reports.

Regression Results (Summary)

- Audit Committee Independence → **Positive & Significant ($p < 0.05$)**
- Financial Expertise → **Positive & Significant ($p < 0.01$)**
- Committee Size → **Positive but Insignificant ($p > 0.10$)**
- Meeting Frequency → **Mixed, weak significance ($p = 0.08$)**

5. Findings and Discussion

The results reveal that independence and financial expertise are the most critical audit committee attributes for ensuring reliable financial reporting among Nigerian banks. While larger committees provide diverse opinions, efficiency declines with size. Frequent meetings alone do not improve FRQ unless combined with expertise and independence. This supports agency theory's assertion that monitoring effectiveness depends on independence and technical knowledge rather than formal compliance.

6. Conclusion and Recommendations

Conclusion

Audit committees in Nigerian banks play a crucial role in enhancing financial reporting quality, but their effectiveness depends more on independence and expertise than size or frequency of meetings. This highlights the need to shift from "box-ticking compliance" toward strengthening the functional capacity of audit committees in developing economies.

Recommendations

1. **Strengthen Independence:** Regulators (CBN & FRCN) should

enforce stricter independence rules to reduce insider dominance.

2. **Mandate Expertise:** At least one member of the audit committee should be a chartered accountant or finance professional.
3. **Optimize Size:** Audit committees should remain between 5–6 members to balance diversity and efficiency.
4. **Capacity Building:** Regular training should be provided to improve technical knowledge and regulatory awareness.
5. **Transparency:** Banks should disclose detailed audit committee activities (meeting minutes, oversight roles) to enhance accountability.

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