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Research Paper

Audit Committee Characteristics and Financial Reporting Quality of Consumer Good Firms in Nigeria

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Abstract
The paper examined the impact of audit committee features on the reporting quality of consumer goods firms in Nigeria. The paper used an ex post facto design. Data were gathered from the audited annual reports of the target firms. By employing the Hausman test, the study used a fixed and random effect model. The F-statistic of 2.238984, p-value = 0.023456 < 0.05 alpha, suggests that audit team meetings, size and financial knowledge jointly have a substantial implication on the calibre of financial reporting. In light of the foregoing, the study suggested among others that firms should maintain an optimal size that balances efficiency with diverse expertise that is neither too small nor too large for thorough financial oversight.

Keywords: *audit, committee, financial, firm, reporting, quality.*

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I. Introduction

Financial reporting quality is a core aspect of governance that ensures the accuracy, transparency, and reliability of financial information firms present. High-quality financial reports reveal an enterprise's actual performance, providing stakeholders with the information required to make informed decisions (Francis et al., 2015). Financial reporting quality encompasses various attributes such as relevance, faithful representation, verifiability, comparability, and timeliness, which collectively make sure there are no substantial discrepancies in the accounting records, whether as a result of fraud or mistake (DeFond & Zhang, 2016). In this regard, the characteristics of the audit team, which is in charge for attaining the financial reporting process, has a substantial function in maintaining and enhancing financial reporting quality (Alzoubi, 2019).

How well the audit team oversees the financial reporting procedure is determined by certain factors (Abbott et al., 2016). An independent audit team is more likely to provide unbiased oversight, while financial expertise ensures that the committee members can effectively scrutinise the financial statements and identify potential issues. The size of the audit team and the interval of its meetings are also important, as they determine the level of diligence and attention that can be given to the reporting process (Dhaliwal et al., 2016). These characteristics collectively effect the committee's capability to discover and avert financial misstatements, thereby improving the overall of reporting quality.

The significance of financial reporting quality to firms and stakeholders cannot be overstated. For firms, it is important for drawing investment and keeping a positive goodwill, and ensuring compliance with regulatory requirements (Kamarudin et al., 2019). For stakeholders, including investors, creditors, and regulators, reliable financial reports are crucial for making informed decisions regarding the allocation of resources, assessment of firm performance, and evaluation of management's stewardship (Madi et al., 2016). Improper financial reporting may have serious negative effects on the economy, such as diminished investor trust, fines, and unstable finances.

Despite the importance of financial reporting quality, cases of fraudulent financial reporting have been reported both globally and in Nigeria. Notable global cases include the scandals involving Enron and WorldCom, where financial misstatements were used to conceal the true financial position of the companies, leading to their eventual collapse (García-Sánchez et al., 2017). In Nigeria, instances of fraudulent financial reporting have also been documented, like the case of Cadbury Nigeria Plc, where financial irregularities resulted in a significant overstatement of profits (Adegbite et al., 2019). These cases highlight the critical need for robust corporate governance mechanisms, including efficient audit teams, to safeguard the integrity of reporting.

The audit committee plays a fundamental function in attaining renowned calibre reports by offering independent function of the reporting process, and ensuring that the accounting statement are produced by applicable standards and regulatory requirements (Zgarni et al., 2016). The committee is also responsible for liaising with external auditors, reviewing audit findings, and addressing any issues that may arise during the audit process. By fulfilling these responsibilities, the audit team contributes to the prevention and detection of financial misstatements, thereby enhancing the trustworthiness of the accounting reports (Wang & Campbell, 2017).

Empirical evidence on the connection among audit team components and financial reporting quality has been diverse, with some literatures indicating a positive relationship while others suggest no significant impact. For instance, Al-Shaer et al. (2017) establish that an autonomous audit team and its financial knowledge have a favourable impact on UK companies' financial reporting calibre. Similarly, Bouaziz, Salhi, and Jilani (2020) reported that size of audit team and meeting intervals are positively correlated with the quality of financial reports in Tunisian firms. In contrast, other studies have found no substantial interplay between certain audit team characteristics and calibre of reporting. For example, Sharma and Iselin (2016) discovered that audit team size and autonomy do not substantially affect calibre of reporting in Australian firms.

Literatures on the interplay among audit committee features and calibre of financial reporting have also yielded varying results. For example, Olayinka and Temitope (2018) found that audit team independence and financial knowledge positively affect calibre of reporting in Nigerian banks, while the size of the audit team had no significant impact. Similarly, Ogundana et al. (2017) found that audit team financial knowhow and meeting intervals are favourably linked with reporting quality in Nigerian manufacturing firms. However, Olowokure, Tanko, and Nyor (2016) found no substantial connection between size of audit team and financial reporting calibre in Nigerian banks.

The mixed findings in the literature suggest that the implication of audit committee characteristics on financial reporting calibre may defer based on the context, including the regulatory environment, industry characteristics, and firm-specific factors (Mardjono, 2018). This underscores the need for context-specific studies that consider the unique characteristics of the Nigerian consumer goods sector. Given this sector's importance to the Nigerian economy and the potential for financial misstatements to have widespread economic consequences, it is critical to understand how audit team features influence financial reporting calibre in this context (Adeyemi & Fagbemi, 2019).

In light of the above, this study aims to examine the implication of audit committee features on the calibre of financial reporting of consumer goods firms in Nigeria. So, the findings of this study would add to the existing literature and offer practical recommendations for improving corporate governance practices in the sector (Ogundana et al., 2017).

Statement of the Problem

Financial reporting quality is crucial in ensuring transparency, accountability, and reliability in financial statements, which are fundamental to the decision-making process of stakeholders (Dechow et al., 2012). The ideal condition for financial reporting calibre is the presentation of accurate, comprehensive, and timely information that reflects a company's true financial position. In this context, an essential part of checking the reporting practise is the audit committee, which makes sure that the accounting statements are free all material discrepancies, and enhancing the credibility of the reports. However, despite the establishment of audit teams, the calibre of financial reporting of many firms, particularly in the consumer goods sector in Nigeria, remains suboptimal (Bédard & Gendron, 2014; Nyor, 2013).

Presently, several challenges undermine the effectiveness of audit committees in Nigerian consumer goods firms, leading to poor financial reporting quality. These challenges include a lack of financial knowledge among audit team members, inadequate independence, and insufficient time and resources allocated for effective oversight (Abbott, Parker, & Peters, 2012; Olowokure, Tanko, & Nyor, 2016). Furthermore, there are issues related to the influence of management on audit committee decisions, which can compromise the objectivity and reliability of financial reports. The persistence of these challenges increases worries regarding the efficient of audit teams in fulfilling their roles, and the overall quality of financial reporting in the Nigerian consumer goods sector.

Moreover, existing studies have adopted approach, which may not adequately capture the exclusive concerns experienced by varioussectors within the Nigerian economy. For instance, the consumer goods sector, with its diverse range of products and market conditions, may present distinct challenges that require tailored governance mechanisms to ensure high financial reporting quality. This underscores the need for research that not only identifies the relevant audit committee characteristics but also explores how these characteristics interact with sector-specific factors to influence financial reporting quality (Zgarni, Hlioui, & Zehri, 2016; Ogundana, Olayinka, & Okere, 2017).

There is a discernible lack of information in the literature about the precise traits of audit teams that affect the calibre of reporting in Nigeria's consumer goods industry, despite the substantial study on the context. Although research has looked at the overall connection between corporate governance frameworks and the calibre of f reporting (Garcia-Sanchez, Rodriguez-Ariza, & Frás-Aceituno, 2013; Kaya & Lührmann, 2013), there is a paucity of empirical research focussing on how certain attributes of the audit team like autonomy, financial knowledge, and routine meetings affect the calibre of financial reporting in Nigerian consumer goods companies. This gap in the research suggests a need for more nuanced and sector-specific studies to better understand the dynamics at play.

Research Hypotheses

In light of the above, the study tested the following at 0.05 level of significance:

1. Rate of audit committee meetings will have no substantial impact on the quality of financial reporting of consumer goods firms in Nigeria.
2. Audit committee size will have no substantial impact on the quality of financial reporting of consumer goods firms in Nigeria.
3. Financial expertise of audit committee will have no substantial impact on the quality of financial reporting of consumer goods firms in Nigeria.

II. Methodology

The study used an ex-post facto design, and collected data from the annual financial statement of firms, as provided at the Nigerian exchange group. As a way of eliminating sampling error, the census method was used to study the entire listed twenty-one (21) firm. The data obtained span from 2013 to 2023. By employing Hausman test, the study used fixed and random effect model to predict the effect of audit committee characteristics on the calibre of financial reporting among the targeted firm in Nigeria.

The econometric function of the model is given as:

FRQ = AUDCom, where FRQ represent financial reporting quality, and AUDCom is audit committee characteristics.

FRQ = AUDmeet + AUDsize + AUDfinexpt Eqn (1)

This is expanded as:

$FRQ = \beta_0 + \beta_1 AUDmeet_{it} + \beta_2 AUDsize_{it} + \beta_3 AUDfinexpt_{it} + \mu$ Eqn (2)

AUDmeet = rate of committee meetings

AUDsize = number of committee members

AUDfinexpt = number of financial experts in the committee.

FRQ = audit report lag.

$_{it}$ = Years

μ = Error term

III. Results

Table 1: Descriptive Statistics

	MEETING	SIZE	EXPERT	FRQ
Mean	3.571429	5.428571	0.571429	2.683000
Median	4.000000	5.000000	0.600000	3.000000
Maximum	4.000000	7.000000	0.700000	5.300000
Minimum	3.000000	5.000000	0.400000	1.000000
Std. Dev.	0.496054	0.661406	0.093537	0.835094
Skewness	-0.288675	1.258443	-0.459279	0.171553
Kurtosis	1.083333	3.316406	2.383301	2.931915
Jarque-Bera	35.06076	56.30476	10.71059	1.070626
Probability	0.000000	0.000000	0.004723	0.054860
Sum	750.0000	1140.000	120.0000	563.4300
Sum Sq. Dev.	51.42857	91.42857	1.828571	145.7528
Observations	210	210	210	210

Table 1 above describes the study's population. The target population consists of the twenty-one (21) listed firms. The period covered in the study ranges from 2014 to 2023. The study utilised financial data relating to number of meetings, size of committee, ratio of financial expertise, and audit report lag. The sample data have a mean score of 3.571429, 5.428571, 0.571429 and 2.683000, and a maximum data score of 4.00, 7.00, 0.70, and

5.30 for AUDmeet, AUDsize, AUDexpt and FRQ. Again, the p-value of Jarque-Bera statistics is 0.000, suggesting that the sampled data are normally distributed.

Table 2: Regression Analysis.

Models	Fixed Effect		Random Effect	
Variables	**Coef.**	**Prob.**	**Coef.**	**Prob.**
C	0.161419	0.5264	0.129107	0.261995
AUDmeet	0.007160	0.9687	-0.042509	0.175368
AUDsize	0.023041	0.9329	0.100826	0.267970
AUDexpt	0.025798	0.7236	0.074529	0.2651
R-squared	0.220829		0.001788	
Adjusted R-squared	0.122200		-0.021159	
Durbin-Watson stat	2.176954		1.990901	
F-statistic	2.238984		0.077917	
Prob(F-statistic)	0.023456		0.925106	
Hausman Test	***Chi-Sq. Statistic***	***Chi-Sq. d.f.***	***Prob.***	
	2.410254	2	0.02997	
R-squared	0.220829			
Adjusted R-squared	0.122200			
F-statistic	2.238984			
Prob(F-statistic)	0.023456			

Table 2 shows the effect of audit committee features on the calibre financial reporting. From the above, Hausman test had a p-value of 0.0299 < 0.05 alpha, suggesting that the fixed effect model is more appropriate.

The coefficient of FRQ = 0.161419 suggests that when all other parameters are held constant, the financial reporting quality of consumer goods firms will insignificantly improve by 0.16 units due to the variables that were taken into account in this study. The independent variables AUDmeet, AUDsize and AUDexpt show beta coefficients of 0.007160, 0.023041 and 0.025798, respectively. Based on this, a change of one unit in audit meeting size and financial expertise would cause an insignificant improvement in the calibre of reporting by (0.007, 0.023, & 0.026) percent, respectively.

Also, the adj. r^2 = of 0.1222 implies that 12.22% of the variants in the financial reporting quality of consumer goods firms can be attributed to variations in audit committee characteristics. The Durbin-Watson statistics of 2.176 are within the acceptable range of 2.00, implying that the model is a good fit. The F-statistic of 2.238984, p-value = 0.023456 < 0.05 alpha, suggests that audit committee meetings, size and financial expertise jointly have a substantial effect on the calibre of financial reporting of consumer goods firms in Nigeria. Thus, the null hypotheses are all rejected.

The above result is in conformity with the work of Al-Shaer et al. (2017) and Bouaziz, Salhi, and Jilani (2020), who found that audit team meeting intervals, size and financial knowledge positively influence the calibre of financial reporting in UK and Tunisian firms, respectively. Similarly, in Nigeria, studies on the interplay among audit team characteristics and caliber of financial reporting by Olayinka and Temitope (2018) and Ogundana et al. (2017) had similar results.

IV. Conclusion and Recommendations

The research looked at how audit committee traits affected Nigerian consumer goods companies' reporting standards. The research used an ex post facto methodology. The target businesses' audited financial statements provided the data. Based on the analysis's findings, the research came to the conclusion that the audit committee's attributes—such as how often it meets, how big it is, and how knowledgeable its members are about finance—have a big impact on how well consumer goods companies in Nigeria disclose their finances. The research findings are based on Hausman statistics, which have a fixed effect, suggesting that they are common and applicable to the industry covered in the study.

In light of the foregoing, the following recommendations are offered:

1. The audit committee should ensure regular meetings. These meetings should focus on critical financial reporting issues, allowing for thorough discussion and resolution of any concerns.
2. The firms should prioritise appointing members with strong financial backgrounds to their audit committees. This will help to improve financial reports' accuracy and reliability.
3. It is advisable for firms to maintain an optimal size that balances efficiency with diverse expertise. A committee that is neither too small nor too large may be more effective in ensuring thorough financial oversight.

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