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AUDIT COMMITTEE INDEPENDENCE, FINANCIAL EXPERTISE, SHARE OWNERSHIP AND FINANCIAL REPORTING QUALITY IN NIGERIA: EVIDENCE FROM LISTED NON-FINANCIAL FIRMS, 2010-2025

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Abstract: The study looked at how the quality of financial reporting of listed non-financial companies in Nigeria from 2010 to 2025 is influenced by audit committee independence, financial expertise, and shareholding. The ongoing concern motivated the study because formal compliance with audit committee requirements does not mean that there will be any real monitoring of financial reporting judgments, accrual estimates, internal control deficiencies, and auditors' disagreements with management. The study is rooted in agency theory, backed by resource-dependence and restone-alignment hypotheses. The empirical data were obtained from published annual reports, financial statements, corporate governance statements, and the public market. Quality was measured by McNichols' measure of accrual quality, while the explanatory variables were measured by different audit committee disclosures. The results of the empirical test show that audit committee share ownership has an encouraging and statistically significant effect on audit quality, whereas financial expertise has a positive but weakly significant effect. The result shows that nominally independent audit committees that do not have competency, vigilance, audit engagement, and enforcement may not properly execute their charter. The performance of the audit committee is concluded to be a function of both substantive independence and financial and nonfinancial abilities over transparent ownership incentives and active regulatory enforcement.

Keywords: audit committee; audit committee independence; financial expertise; share ownership; financial reporting quality; corporate governance

1. Introduction

Background of the Study

High capital market credibility hinges, in part, on the financial report quality by fulfilling its raison d'être for the capital market, that is to serve as the base for investors, regulators, consumers, competitors, and other stakeholders in assessing performance, risks, stewardship, and future cash flows with the financial statements. Through their outperforming competence deliberations in the year 2002, the conclusion was drawn by Dechow and Dichev on accrual quality being an appraisal of accounting in terms of reflecting the cash-flow realization. The work further extended the discussion to join accrual estimation error to revenue growth and property, plant, and equipment. A broad accounting literature later considered Francis et al. (2005) for information risk accrual quality, Barth et al. (2008) for the link between accounting quality and faithful representation and comparability, and Dechow et al. (2010) for the construction that the quality of earnings relied on decision usefulness, reporting incentives, and the measurement model. However, the reliability of such disclosure in Nigeria, referred to by some of the research interested bodies, becomes an issue when companies are listed but remain in the emergent phase; hence, it is also pivotal for investor confidence.

The audit committee, by exerting control between the management, external auditor, board, and shareholders, is expected to reduce the risk associated with financial reporting. Agency theory, beginning with Jensen and Meckling (1976), regards monitoring as an outcome of the separation of ownership and control, whereas Fama and Jensen (1983) further maintain that effective boards and committees should help control managerial discretion. Financial reporting refers to this discretion in accruals, revenues, impairment, provisions, fair value judgments, and when or how to reveal, while Klein (2002) and Xie et al. (2003) help identify that more-auditor scope and competence would curb earnings management or reporting failures, a coalesce of international harmony over governance within the context of financial reporting. An example could be still drawn amongst Nigerian listed firms where audit committees are enjoined by statutes and customs to oversee quality, internal and external audit relations (Financial Reporting Council of Nigeria [FRCN], 2018; Federal Republic of Nigeria, 2020).

Nigeria proves to be an appropriate background for investigating the effectiveness of audit committees owing to the adoption of strong corporate governance systems in Nigeria in the 2010-2025 era. With regards to the Nigerian data from 2010 to 2014, Kibiya et al. (2016) reports that audit committee share holdings and financial expertise are relevant to financial report quality; still, the recent research of Ibrahim et al. (2024), basically the same as Nigerian audit committee research, relies on annual report data and panel regressions. The Nigerian Code of Corporate Governance 2018 emphasizes the competence of board committees, audit oversight, financial literacy, and independent judgment. Extracted from FRCN (2018), encompassing such aspects, the Nigerian Code of Corporate Governance 2018 has been issued to restore confidence in the Nigerian business environment. CAMA 2020 now requires public companies to have audit committees and lays strong emphasis on financial literacy and professional accounting-related capabilities (Federal Republic of Nigeria, 2020). These reforms, thus, make the 2010-2025 era an analytically unique period in the times ofsuch events as: acts legislated before the promulgation of the NCCG, emergence of the NCCG, the Nigerian Companies and Allied Matters Act, 2020, COVID-19, and post-pandemic reporting periods.

The reason to concentrate on listed non-financial firms is that financial institutions are subject to prudential regulation, capital adequacy rules, impairment expectations, and earnings processes that are different from those of manufacturing, consumer goods, industrial goods, oil and gas, services, agriculture, and other non-financial sectors. Beasley (1996) and Abbott et al. (2004) have demonstrated that governance mechanisms may matter differently across reporting environments, and DeFond and Zhang (2014) indicate that audit quality and reporting credibility are pegged against the institutional setting. For individuals, intermediaries, and capital-market regulators, non-financial firms in Nigeria represent a significant universe for investment; however, their reporting credibility heavily depends on governance disclosures and audit committee oversight.

The World Bank has provided evidence that various measures of development, such as stock market capitalization, turnover ratio, and price volatility, indicate that progress in policy and the market depth has been prevalent at different times since the inception of listed series. The World Bank Report (2026), meanwhile, showed that market capitalization of listed domestic companies indicates capital-market depth in marketplaces with relatively low liquidity and trading depth, where investors usually rely on audited financial statements and governance signals and less on the continuous price-discovery mechanism. With some qualifications, as the audit commit-tee performs more than just a compliance requirement, it becomes a mechanism of establishing trust in accounting information and longitudinally over the study period from 2010 to 2025.

Statement of the Problem

It is theoretically possible to satisfy formal requirements of the audit committee while keeping soft internal controls, aggressive estimation behavior, optimistic impairment judgments, nondisclosure of related-party transactions, and below the par responses to any issues flagged by the external auditor. Klein (2002) and Xie and his counterparts in Zhang (2003) argue that audit committee independence and financial expertise are part of the corporate governance mechanisms that can restrict earnings management, while Carcello and Neal (2003) empirically show that independence may be traded off for managerial pressures. In Nigeria, Kibiya et al. (2016) and Ibrahim et al. (2014) provide fairly useful evidence that audit committee attributes might be relevant, while Tijani et al. (2015) assert, however, that governance modifications in respect of the pre- and post-CAMA 2020 conditions can influence governance differentially. This paper therefore finally managed to elucidate that the primary question is not about whether audit committees exist in the Nigerian context, but rather whether, by virtue of their attribute composition and their working arrangements, they can meaningfully bring about higher standards in financial reporting.

Prior examinations such as Klein (2002), Abbott et al. (2004), Bedard et al. (2004), Kibiya et al. (2016), Ibrahim et al. (2024) and Tijani et al. (2025) have examined independence as a governance variable, but evidence is mixed as independence could be measured formally while monitoring might require substantial courage, accessible information, expertise, and time commitment. The young researcher noted in his gap that many studies articulate that independence should have a dilutional impact on the reporting quality; however, there is not enough explanation to ascertain why the variable of independence is rendered statistically weak where there is an immense proportion of firms observing high independence or non-executive representation.

An article was written by Bedard, et al. in 2004, Krishna, and Visvanathan in the year 2008, Dhaliwal, et al. in 2010, Cohen, et al. 2014, Kibiya et al. in 2016, and Ibrahim, et al. 2024, says accounting and financial knowledge for audit committee monitoring can increase. Many audit committee-effectiveness empirical studies still treat financial expertize only as a simple dummy without explaining the role and its meaning in Nigeria following the post-NCCG and post-CAMA context.

Meanwhile, one can see that despite serving as a dependent variable in financial expertize, the latter has not been focused very much on explaining on how financial expertize per se really translates that reviewed accruals, impairments, internal controls, audit adjustments, and risk disclosures are critically perceived.

The same viewpoint is shared by Jensen and Meckling (1976), Warfield et al. (1995), Morck et al. (1988), Kibiya et al. (2016), and Bhagat and Bolton (2008), while Fama and Jensen (1983) concur as to aligning incentives through ownership. The picture thus portrayed-ownership-might indeed promote enthusiasm for equities, but could tempt its adverse arrays if not handled in a very transparent manner. The literature gap in this regard is that all studies tend to make a blanket statement on its advantage or disadvantage in terms of incentive alignment, but do not separate the justification for the existence of practically, moderately rooted personnel incentives from the expression of contingency on too much interference in independence.

This study attempts to fill in the gaps regarding the controversial nature of the alignment issues by viewing "ownership" as an incentive tool while discussing the requirement of transparency through adequate disclosure and mechanisms against influence excess.

The studies of Dechow et al. (2010), Francis et al. (2005), Barth et al. (2008), Kothari et al. (2005), Ibrahim et al. (2024), World Bank (2026) argue that reporting quality matters for capital-market decisions, yet many firm-level Nigerian studies have reported empirically estimated regression coefficients without linking them to Nigeria's broader market depth, liquidity, and investor information environment. This subsequently leads to a disapproval of the supporting literature that emphasizes the practical importance of reporting quality in the context of market use. This study bridges this gap by introducing additional evidence to an existing context widely used in current literature-supporting evidence, using public online capital markets in greater detail while firm-year basis panel regression remain the main empirical findings.

Research Questions

i. To what extent does audit committee independence affect the financial reporting quality of listed non-financial firms in Nigeria during the 2010-2025 period?
ii. What is the effect of audit committee share ownership on the financial reporting quality of listed non-financial firms in Nigeria during the 2010-2025 period?

iii. How does audit committee financial expertise affect the financial reporting quality of listed non-financial firms in Nigeria during the 2010-2025 period?
iv. How does the Nigerian capital-market and regulatory context strengthen the need for effective audit committee monitoring of financial reporting quality?

Objectives of the Study
i. To examine the effect of audit committee independence on the financial reporting quality of listed non-financial firms in Nigeria.
ii. To evaluate the effect of audit committee share ownership on the financial reporting quality of listed non-financial firms in Nigeria.
iii. To determine the effect of audit committee financial expertise on the financial reporting quality of listed non-financial firms in Nigeria.
iv. To strengthen the interpretation of the results by relating audit committee monitoring to Nigeria's 2010-2025 governance and capital-market environment.

Research Hypotheses
H_{01}: Audit committee independence has no significant effect on the financial reporting quality of listed non-financial firms in Nigeria.
H_{02}: Audit committee share ownership has no significant effect on the financial reporting quality of listed non-financial firms in Nigeria.
H_{03}: Audit committee financial expertise has no significant effect on the financial reporting quality of listed non-financial firms in Nigeria.

2. Literature Review
Conceptual Review
Audit Committee Independence
As per Klein (2002), audit committee independence is a governance issue that promotes manager control over the financial reporting system, while Fama and Jensen (1983) argue that monitoring is stronger when these responsibilities are separated. In the auditing committee context, independence means committee members can challenge accounting policy, auditing evidence, and management estimates without the euphemism of aid at their backs or even further conflict of interest-again regarded as a serious failure. Abbott et al. (2004) uphold the notion that independence factors in reducing the number of errors reported, while Xie et al. (2003) showed that independent and financially sophisticated directors can reduce earnings management. In Nigeria, Kibiya et al. (2016) view independence together with financial expertise and share ownership; Ibrahim et al. (2014) review the audit committee structure in financial reporting quality. Therefore, it is conceptual knowledge that audit committee independence is the principal support system for the oversight required by its objective orientation.
According to Beasley (1996), independence in corporate governance reduces fraudulent financial statements. However, Bedard et al. (2004) assert that independence works better when combined with expertise and engagement. FRCN (2018) interprets that boards should support unbiased judgement, while Federal Republic of Nigeria (2020) strengthens the legal roles of audit committees in public companies. However, where almost all firms report high independence as per the descriptive results in this study, independence allows only minor statistical variation that may become weak in regression analysis. For post-CAMA perspective, Tijani et al. (2025) provide a commentary and Ibrahim et al. (2024) find that recent evidence from Nigeria is sometimes disparate. Independence is, hence, a necessary but not a sufficient condition for financial reporting quality.

Audit Committee Financial Expertise
Financial expertise and audits understanding pertain to various technical skills found among committee members (i.e., accounting, auditing, finance, or related knowledge) in order to make a sense of various complications that appear in reports. As per Bedard et al. (2004), financial expertise participation could assist guard against aggressive earnings management, while Krishnan and Visvanathan (2008) also show that accounting expertise plays a foundational role in ensuring conservative reporting judgments. Dhaliwal et al. (2010) correlated accounting expertise with accrual quality, while DeFond et al. (2005) found that the market perceives the presence of accounting financial experts. Meanwhile, in Nigeria, the

FRCN (2018) emphasized financial literacy and financial expertise among audits; the Federal Republic of Nigeria (2020) requires more financial literacy and professional accounting competence in the selection of the audit committee structure in public companies. In essence, expertise represents the technical means to shift the audit committee from the topical discussion to meaningful inquiry.

Improving the accuracy of financial reporting quality based on measures of accruals genuinely raises questions concerning the professional judgment. Dechow and Dichev (2002) denote that accrual quality is contingent upon the accuracy of estimation, and McNichols (2002) investigates factors that affect accrual behavior, such as revenue growth and property, plant, and equipment. For instance, without having the proper knowledge of accounting, a committee member would not evaluate the impairment assumptions, provisions, going-concern assumptions, tax estimates, fair-value measurements, or other auditor adjustments. Cohen et al. (2014) place emphasis on the collaboration between audit committees and auditors while relating governance with audit effort (Carcello et al. 2006). Kibiya et al. (2016) found that in Nigeria an audit committee's financial expertise matters, and Tijani et al. (2025) reinvigorated the matter following CAMA 2020. An expert who fits the above qualifications should then be seen to have a positive impact on the quality of corporate reporting where expertise is understood as practical, updated, and actively used during audit-committee meetings.

Audit Committee Share Ownership

Share ownership by the audit committee determines the percentage of company shares held by members of the audit committee, and is widely interpreted according to incentive alignment. The argument favors Jensen and Meckling (1976) on getting ownership to minimize agency costs by tying interests between the principals and the managerial agents (with monitors) in an agent-principal arrangement while Warfield et al. (1995) connect managerial ownership with earnings informativeness. On the opposing side, Morck et al. (1988) suggest that ownership may lead toward entrenchment at the top, and, in requiring that monitoring always remains independent of judgment, Fama and Jensen (1983) support their assertion. In the Nigerian literature on audit committees, Kibiya et al. (2016) obtain share ownership as genuine aids for external monitoring; Ibrahim et al. (2024) acknowledge the governing associations with reporting quality. Therefore, moderate audit committee motivates additional supervision since it will catch part of the wealth effect of poor reporting.

Indeed, shareholding essentially differs from independence: it works through incentives instead of segregated control from management. Accordingly, with the ownership requirement being transparent as well as moderate, (audit committee) members might feel obliged much more to guard corporation's value against any "disadvantageous effect of corporate performance," sidestepping many legal or regulatory problems that may arise, especially those bearing on loss of reputation. Nevertheless, it has been established that the effects of ownership may be curvilinear and are thereby variable-and the effectiveness of governance on the other hand is also threatened by pressure and dependence. Kibiya and coauthors (2016) mention that there may be a lesser extent of influence on Nigerian audit committee due to share ownership, whereas Financial Reporting Council of Nigeria [FRCN] (2018) and Federal Republic of Nigeria (2020) attest to the necessity of delivering the function with integrity and impartiality. Thus, the study treats share ownership as a potential good, but not necessarily undamaging, considering the specific market structure where concentration of ownership stands in the way of effective governance.

Financial Reporting Quality

The quality of financial reporting refers to the degree to which the financial statements closely represent the financial condition and performance of the firm. Dechow et al. (2010) discuss income quality as relevant for an in-depth decision model. Barth et al. (2001, 2008) relate accounting quality with relevance and faithful representation and comparability. Dechow and Dichev (2002) develop accrual quality in terms of the conversion of accruals into cash flows, and McNichols (2002) extends the model by adding change revenues and property, plant, and equipment. Francis et al. (2005) refer to the quality of accruals with information-risk, and Sloan (1996) sheds light on the impact of accruals on earning persistence. For this study, financial reporting quality is measured through McNichols accruing quality logic, with higher values reflecting better reporting quality.

All the more in emerging markets, reporting quality means so much, because investors may face a scarcity of analyst coverage, slumping liquidness, weakened enforcement, and punishment and information asymmetry so much greater. Various indicators later cast the prescriptions. The World Bank (2026) and Federal Reserve Bank of St. Louis (2024a, 2024b, 2024c) produce some indicators indicating that Nigeria has a capital market that is highly developing with respect to depth and trading activities, while FRCN (2018) stresses that it has designed corporate governance practices to build stakeholder confidence. Ibrahim et al. (2024) further link the quality of financial reporting in Nigeria to annual reports, and Tijani et al. (2025) suggest that the legalistic reforms could alter the way SMEs comply with audit committees. Thus, the question arises as to the traditional treatment of financial reporting quality as just an accounting concept. It is rather a more efficacious mechanism of regulation, reflecting valuation, contracting, regulatory trust, and the fortification of investing practices.

2.2 Theoretical Framework

2.2.1 Agency Theory

Agency theory forms the background of this study. Jensen and Meckling (1976) define agency dynamics as entire information system in which managers acts on behalf of shareholders but may end up fulfilling private benefits. Fama and Jensen (1983) reward effective monitoring to solve agency problems. When managers manipulate their discretion in the process of preparing the financial reports, an agency problem emerges. During the reporting process, executive directors have specific reasons to use discretion over the accruals, provisions, impairment, revenue recognition, and/or disclosure timing in managing their financial report results or with the constraint of setting report characteristics within constraints (Sinha and Mallette, 2018). The audit committee attempts to ameliorate agency costs by questioning management, and at the same time, upholding auditor independence and strengthening internal controls. Their study lends credence to the role of the audit committees in financial reporting.

The theory forecasts that audit committee independence should annihilate managerial authority, financial savvy should enhance the capability for identifying technical reporting issues, and stock ownership should suffocate incentives in the audit committees to align them closely with shareholders' interest. However, the agency theory also hints that a monitoring mechanism can be symbolic if it lacks power, information, or incentives. This explains why independence may become positive but insignificant, when most firms disclose similar levels of independence or else independence implies nothing without competence. From the agency theory perspective, support is obtained for the projection that audit committee characteristics will indeed enhance the quality of financial reporting. The results are interpreted with due care because the effectiveness of any one feature can pertain to the institutional context, disclosure quality, or enforcement regimes.

Resource-Dependence and Incentive-Alignment Reasoning

Discussion on the basis of dependence theory adds insight into the question why financial proficiency matters. Pfeffer and Salancik (1978) note that the board provides resources, information, and relations to the external environment whereas audit committee experts provide a specialized knowledge source for the oversight of financial reporting. Bedard et al. (2004), DeFond et al. (2005), Krishnan and Visvanathan (2008), and Dhaliwal et al. (2010) agree that accounting expertise improves audit committee effectiveness. An obligation on financial literacy in the perception of FRCN (2018) and Federal Republic of Nigeria (2020) legitimizes their technical knowledge relating to expertise and provides the impetus for it to become institutionalized not just as desirable but as expected.

"Incentive-alignment reasoning is instrumental in explaining how and why shareholder ownership can have an impact on audit committee behavior. One may argue, as

Jensen and Meckling (1976) have, that ownership aligns interests. However, Morck et al. (1988) and Fama and Jensen (1983) suggest that ownership can sometimes lead to problems of entrenchment or independence if not properly managed. Kibiya et al. (2016) found the existence of the beneficial impact of audit committee ownership vis-à-vis financial reporting in Nigeria, providing support to the incentive hypothesis. Therefore, while the current study expects ownership to encourage heightened vigilance, it also acknowledges the fact that complete transparency and moderate levels of ownership are essential to ensure that the ownership does not undermine its independent oversight."

Review of Empirical Studies

Kibiya et al. (2016) have discussed non-financial Nigerian public firms on the aspect of audit committee independence, financial expertise, share ownership, and financial reporting quality in this research, utilizing 505 firm-year observations during the period 2010 to 2014. The researchers used the measure of earnings quality that McNichols (2002) had documented, thereby using multivariate regression; the study has uncovered substantial statistical significance of the audit committee share ownership and financial expertise and also indicated that firm age and firm size were important. It is used to also provide the foundational Nigerian evidence for this research. However, the difference in this study comes with an extension in timeframe from 2010 to 2025, thus making the point statement more explicit, introducing null hypotheses, and floating interpretations of the results in the context of the NCCG 2018 and CAMA 2020 legislative state.

Ibrahim et al. (2024) have examined the attributes and the composition of audit committee in relation to the quality of financial reporting by non-financial companies listed in Nigeria based on the secondary data obtained from annual reports and panel regression estimating. Their study has permeated the same dimensions of firm-year governance disclosures, accounting information, and panel estimation, exactly answering to tax questions. The distinctive feature then becomes an emphasis on reports, governance variables in relation to non-financial, non-life firms. This paper is different because more emphasis is placed on the independence, ownership, and financial expertise of audit committees and introduces capital market context for A-reason why related financial reporting matters to investors. Concerning audit committee attributes and the quality of financial reporting, Tijani et al. (2025) checked on the pre- and post-CAMA 2020 status to tell about legal reform's dimension in enhancing the effectiveness of the audit committee. The study has relevance in a way, seeing that the time frame in the present paper captures CAMA 2020, as well as the post-pandemic reporting environment; it is, however, distinct in seeking the reformed context to better understand the interplay among independence, expertise, and ownership incentives. Therefore, this argues that no legal reform actually enhances governance if it does not result in monitoring leverage and transparent reporting behavior.

The global evidence also backs the audit committee-reporting quality connection. Klein (2002) discovered a negative relationship between audit committee independence and abnormal accruals, while Xie et al. (2003) showed that earnings management can be heavily constrained by board and audit committee activities. Abbott et al. (2004) showed a negative association indicating that audit committee independence and expertise could protect shareholder interests by reducing the risk of financial restatement. Bedard et al. (2004) revealed a weak relationship between expertise and independence of audit committee members and aggressive earnings management. Positive abnormal market reaction to accounting financial experts who are appointed to audit committees goes in line with the study. These studies all successfully support the present hypotheses and also show several ways in which independence, expertise, and activity could differ for different institutional settings.

Krishnan and Visvanathan (2008) show that the audit committee members involved with accounting and financial expertise are strongly associated with conservatism in accounting, while Dhaliwal et al. (2010) connect audit committee accounting expertise with accrual quality, and Cohen et al. (2014) emphasizes the audit committee-auditor interaction is vital. The importance of such studies is that the financial reporting quality relies heavily upon technical aspects not solved by routine independence. The novelty in the current study is the Nigerian setting where financial expertise disclosures are often nonexistent, and the legal environment is now asking for financially literate members in the audit committees.

Ownership structure aligns incentives according to Jensen and Meckling (1976), and managerial ownership influences earnings informativeness by Warfield et al. (1995), while governance and ownership structures connect to firm performance by Bhagat and Bolton (2008). However, cautioning that ownership may lead to entrenchment in high dimensions, Morck et al. (1988) explain the potential problem of agency cost through ownership. As suggested by Kibiya et al. (2016), audit committee share ownership is significant in Nigeria, which is consistent with the incentive-alignment hypothesis. This research is unique in understanding ownership differently from incentive alignment, which must be combined with independence and transparency.

2.4 Literature Gap and Contribution of the Study

Klein (2002), Xie et al. (2003), Abbott et al. (2004), Bedard et al. (2004), Kubiya et al. (2016), Ibrahim et al. (2024), and Tijani et al. (2025) look at audit committee independence but fail to ascertain fully why independence is sometimes statistically weaker or inconsistent. The gap is that independence is often measured as a desirable ratio on the books instead of as true independence carrying the attributes of having the courage to make the right moves, the muscle to access internal information, the skills to critically think, and the orientation to fairly arm-wrestle against the management team. This inquiry helps to give a greater perspective as to why independence is weak in relation to narrow variable variation, and possibly how it compares to expertise and share holdings among alternative monitoring efforts.

Wallner et al. (1996), DeAngelo et al. (2006), and Craig et al. (2008) support expertise's importance, while a number of other investigations do not make sufficient connections between specific tasks and expertise to review the earnings subject matter area in the scope of reviewing effectiveness, internal controls, audit findings, impairment judgments, and related party transactions. It is not about whether expertise matters or not, but how it would contribute practically in the oversight role of the audit committees. This study contributes to gap-fillers concerning expertise as a technical resource and its interpretation under NCCG 2018 and CAMA 2024 lines.

Ownership and incentive have been examined by Jensen and Meckling (1976), Warfield et al. (1995), Bhagat and Bolton (2008), Morck et al. (1988), Fama and Jensen (1983), and Kibiya et al. (2016), but the literature does not always separate moderate incentive alignment from possible entrenchment or independence impairment. The gap is important in Nigeria because ownership concentration and shareholder representatives can shape governance behavior. This study fills the gap by treating audit committee share ownership as a monitoring incentive while also recognizing the need for transparent ownership disclosure and safeguards against excessive influence.

Dechow et al. (2010) ; Francis et al. (2005); Barth and Pincus (2004); Kibiya et al. (2016); Ibrahim et al. (2020); Federal Reserve Bank of St. Louis (2024a, 2024b, 2024c); and The World Bank (2026). It shows that financial reporting quality affects information risk and market confidence, but many Nigerian audit committee studies remain substantially underdeveloped in discussing financial reporting quality. Extrapolating on this gap, the capital-market environment that uses financial statements is rather underdiscussed. So here, the use of public online capital-market indicators as a contextual analysis fills this gap, thus forcibly distinguishing that context from the firm-level regression.

3. Methodology

Research Design

The research employed an ex post facto research design because its variables depended on historical annual-report disclosures and financial statements and corporate governance statements which had already been disclosed to the public and which researchers could not control. The design is appropriate for investigating corporate governance and financial reporting because the study examines how audit committee characteristics and reporting quality differ between different firm years. The research supports panel-data estimation because it merges

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cross-sectional data from different firms with time-series data that spans multiple years.

Population, Sample, and Scope

The study used non-financial companies that were listed on the Nigerian Exchange during the period from 2010 to 2025. Financial institutions were excluded because banks, insurers, and other financial firms are governed by prudential rules, provisioning models, capital requirements, and risk structures that differ from those of non-financial firms. The research sample included companies that provided their annual reports and had enough data to calculate their audit committee variables and control variables and their financial reporting quality measurement. The provided research results show 505 firm-year data points which create an unbalanced panel of listed non-financial companies.

Sources of Data

The researchers gathered data about companies from their annual reports and financial statements and corporate governance documents which were available for public inspection. The governance sections and directors' reports and statutory audit committee disclosures and shareholding records provided the sources for the audit committee variables. The researchers obtained financial statement variables from statements of financial position and profit or loss statements and cash flow statements and notes to the accounts. The researchers used public online data from FRED/World Bank to provide background information about Nigeria's capital-market environment but they did not use it to substitute for firm-year data.

Table 1

Study Scope, Data Sources, and Analytical Purpose

Component	Coverage	Analytical purpose
Study period	2010-2025	Captures pre-NCCG 2018, post-NCCG 2018, CAMA 2020, COVID-19, and post-pandemic reporting context.
Population	Listed non-financial firms in Nigeria	Ensures sector comparability by excluding financial institutions with distinct regulation and earnings processes.
Firm-level data	Annual reports, financial statements, and governance disclosures	Used to compute audit committee variables, controls, and accrual-quality measures.
Public online context	FRED/World Bank capital-market indicators	Used to support interpretation of why credible reporting matters in Nigeria.
Empirical output	505 firm-year observations	Used for descriptive statistics, diagnostics, panel regression, and hypothesis testing.

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Note. The public online indicators provide context only; the main hypothesis tests are based on firm-level annual-report data.

Variable Measurement
Table 2
Measurement of Variables

Variable	Description	Measurement
FRQ	Financial reporting quality	Financial reporting quality score derived from the McNichols accrual-quality model; interpreted so that higher values indicate better reporting quality.
ACIND	Audit committee independence	Proportion of independent or non-executive members on the audit committee based on corporate governance disclosures.
ACSOW	Audit committee share ownership	Audit committee members' shareholding as a proportion of total company shares.
ACFE	Audit committee financial expertise	Dummy variable coded 1 if at least one audit committee member has relevant accounting or finance expertise, and 0 otherwise.
FS	Firm size	Natural logarithm of total assets.
FA	Firm age	Number of years from incorporation or listing to the observation year.
PRAT	Profitability	Profit after tax and extraordinary items.

Note. FRQ = financial reporting quality; ACIND = audit committee independence; ACSOW = audit committee share ownership; ACFE = audit committee financial expertise; FS = firm size; FA = firm age; PRAT = profitability.

Model Specification

The research presents two interconnected models. The first model estimates accrual quality which serves as the residual-based measurement of financial reporting quality. The second model tests whether audit committee independence audit committee share ownership and audit committee financial expertise explain differences in financial reporting quality among listed non-financial firms.

Accrual-quality model:

$\Delta WC_{it} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{it} + \beta_3 CFO_{i,t+1} + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + \mu_{it}$

Where ΔWC_{it} represents change in working-capital accruals for firm i in year t; $CFO_{i,t-1}$, CFO_{it}, and $CFO_{i,t+1}$ represent prior-year, current-year, and next-year operating cash flows; ΔREV_{it} represents change in revenue; PPE_{it} represents property, plant and equipment; and μ_{it} is the residual term. The residual captures the unexplained component of working-capital accruals and therefore reflects accrual-estimation error. For consistency with the study interpretation, the residual-based financial reporting quality score is coded so that higher FRQ values indicate better reporting quality.

Governance model:

$FRQ_{it} = \alpha_0 + \beta_1 ACIND_{it} + \beta_2 ACSOW_{it} + \beta_3 ACFE_{it} + \beta_4 FS_{it} + \beta_5 FA_{it} + \beta_6 PRAT_{it} + u_i + \varepsilon_{it}$

Where FRQ_{it} is the financial reporting quality score; $ACIND_{it}$ is audit committee independence; $ACSOW_{it}$ is audit committee share ownership; $ACFE_{it}$ is audit committee financial expertise; FS_{it} is firm size; FA_{it} is firm age; $PRAT_{it}$ is profitability; u_i captures unobserved firm-specific effects; and ε_{it} is the idiosyncratic error term. The coefficients β_1, β_2, and β_3 are the main coefficients of interest because they correspond directly to the three audit committee attributes tested in the null hypotheses.

Panel estimation is appropriate because the dataset combines cross-sectional variation across firms with time-series variation across years. Pooled OLS, fixed-effects, random-effects, and robust random-effects specifications are compared. The robust random-effects specification is retained as the main interpretive model because it preserves the panel structure while using robust standard errors to reduce sensitivity to heteroskedasticity and other standard-error concerns.

Method of Data Analysis and Robustness Strategy

Data analysis proceeded in four stages. First, descriptive statistics were used to summarize financial reporting quality, audit committee attributes, and control variables. Second, diagnostic tests assessed heteroskedasticity, functional-form adequacy, joint model significance, normality, and multicollinearity. Third, pooled OLS, fixed-effects, random-effects, and robust random-effects panel estimates were compared. Fourth, public capital-market indicators were used only to contextualize why credible financial reporting and audit committee monitoring matter in Nigeria.

The robustness strategy separates tests supported by the supplied output from further checks that require the raw firm-year dataset. The supported checks include model comparison, robust standard errors, the Breusch-Pagan test, the Ramsey RESET test, the Wald test, normality checks, and VIF diagnostics. If the raw dataset is available, further re-estimation should include a Hausman specification test, clustered standard errors, winsorized variables, year and industry effects, alternative FRQ coding, and pre- versus post-CAMA 2020 subsample analysis.

Table 3

Robustness and Analytical Rigor Framework

Robustness issue	Evidence used in this study	Interpretive implication
Model dependence	Fixed effects, random effects, pooled OLS, and robust random effects are compared.	Findings are stronger when signs remain stable across models and the main inference uses robust standard errors.
Heteroskedasticity	Breusch-Pagan test and robust standard errors are reported.	Even where heteroskedasticity is not severe, robust inference provides a more cautious interpretation.
Multicollinearity	Mean VIF is 1.02.	The predictors are not excessively collinear, so the coefficient interpretation is not materially distorted by overlap.
Functional form	Ramsey RESET p value is above .05.	There is no strong evidence that the model suffers from omitted nonlinear form at the conventional level.
Panel structure	Firm-year observations are interpreted in panel form.	Panel estimation is more appropriate than a purely cross-sectional approach.
Further checks if raw data are available	Winsorization, year effects, industry effects, post-CAMA split, alternative FRQ coding.	These checks are recommended for future re-estimation but are not claimed as newly executed without the raw dataset.

Note. This table separates checks supported by the supplied output from recommended additional checks that require raw firm-year data.

3.7 Public Online Contextual Analysis

Public capital-market indicators were used to contextualize the importance of financial reporting quality in Nigeria. The available FRED Global Financial Development series report annual values through 2020 for stock market capitalization to GDP, value traded to GDP, turnover ratio,

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and stock-price volatility. The financial statements which show credible results become vital for markets that experience restricted trading and low liquidity during the first half of the study period. The data serve as macro-level evidence which explains why audit committee monitoring continues to hold vital importance for organizations.

Table 4
Public Online Capital-Market Context for Nigeria

Indicator	2010	2015	2020	Change	Interpretation
Stock market capitalization to GDP (%)	13.984	10.266	13.086	-0.898 pp	Market depth remained modest over the available public series.
Stock market total value traded to GDP (%)	1.412	0.839	0.574	-0.838 pp	Trading activity weakened, increasing the relevance of credible disclosures.
Stock market turnover ratio (%)	10.100	8.174	4.387	-5.713 pp	Lower turnover implies weaker liquidity and greater reliance on reported information.
Volatility of stock price index	27.507	19.121	15.206	-12.301	Volatility declined from 2010 but remains relevant to investor risk assessment.

Note. pp = percentage points. Values summarize FRED/World Bank Global Financial Development data for Nigeria; the FRED series used for these indicators currently end in 2020.

4. Data Analysis and Results

Descriptive Statistics

Table 5
Descriptive Statistics

Variable	n	Mean	SD	Minimum	Maximum
FRQ	505	1.302	0.797	-0.080	15.930
ACSOW	505	0.157	1.401	0.000	30.520
ACIND	505	0.998	0.045	0.000	1.000
PRAT	505	-0.561	17.580	-369.200	82.980
ACFE	505	0.059	0.237	0.000	1.000
FA	505	21.150	12.900	1.000	49.000
FS	505	6.927	0.782	3.640	8.984

Note. FRQ = financial reporting quality; ACSOW = audit committee share ownership; ACIND = audit committee independence; PRAT = profit after tax; ACFE = audit committee financial expertise; FA = firm age; FS = firm size.

The financial reporting quality score demonstrates significant financial reporting quality score differences which reach 1.302 as average value with 0.797 standard deviation. The mean share ownership rate for audit committees stands at 0.157 while its ownership distribution shows high variability according to standard deviation measurement which reaches 1.401. The mean value of audit committee independence reaches 0.998, which indicates that most sampled organizations revealed

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their use of independent directors or non-executive directors. The high average value and the small standard deviation explain why independence shows a positive relationship, yet it remains statistically insignificant in the regression because the variable shows limited range, which decreases its ability to explain outcomes despite its theoretical importance.

The average percentage of audit committee financial expertise for the sample stands at 0.059, which indicates that organizations across the study provided only limited information about their financial expertise. FRCN (2018) and Federal Republic of Nigeria (2020) require organizations to meet financial literacy standards, which makes this situation a serious governance problem because it violates those requirements. The expected business pattern shows that both firm age and firm size should display normal business pattern, but non-financial companies show various performance results because their profitability metrics show negative values across an extensive performance spectrum.

4.2 Diagnostic Tests

Table 6

Diagnostic Tests

Test	Statistic	p	Decision
Breusch-Pagan test	0.930	.334	No evidence of heteroskedasticity at the 5% level.
Ramsey RESET test	1.430	.142	No evidence of omitted-variable misspecification at the 5% level.
Wald test	102.600	< .001	The model is jointly significant.
Skewness and kurtosis test	0.139	-	Distributional evidence supports approximate normality.
Mardia test	0.441	-	Multivariate normality is not rejected.
Mean VIF	1.020	-	No serious multicollinearity concern.

Note. A dash indicates that the supplied output did not report a separate p value. VIF = variance inflation factor.

The diagnostic results in Table 6 strengthen confidence in the regression analysis. The Breusch-Pagan test shows no statistical significance which indicates the presence of heteroskedasticity at the 5% level does not constitute a serious problem. The Ramsey RESET test shows no significant results which means there is no strong proof about functional-form misspecification. The mean VIF of 1.02 is far below the common threshold of 5 which enables researchers to keep all six variables in their model because the thresholds do not create any multicollinearity problems. The Wald statistic demonstrates significance at $p < .001$ because the explanatory variables together create financial reporting quality variations. The normality-related tests also support the use of regression inference. The study uses robust random-effects results for interpretation because accounting panel data contains outliers and firm-specific heterogeneity and residual variance patterns that standard errors cannot completely resolve.

4.3 Panel Regression Results

Table 7

Panel Regression Results

Variable	Fixed Effects	Random Effects	Pooled OLS	Robust RE
ACSOW	0.0251 (0.0267)	0.0313 (0.0235)	0.0313 (0.0235)	0.0313*** (0.00643)
ACFE	0.0785 (0.458)	0.223 (0.177)	0.223 (0.177)	0.223* (0.117)
ACIND	0.143 (0.890)	0.0376 (0.737)	0.0376 (0.737)	0.0376 (0.116)

FA	0.0257 (0.0200)	0.00484 (0.00330)	0.00484 (0.00330)	0.00484* (0.00332)
FS	0.361** (0.153)	0.376*** (0.0535)	0.376*** (0.0535)	0.376*** (0.0557)
PRAT	-0.000709 (0.00189)	-0.00129 (0.00180)	-0.00129 (0.00180)	-0.00129*** (0.000288)
Constant	-1.892 (1.354)	-1.463* (0.813)	-1.463* (0.813)	-1.463*** (0.338)
Observations	505	505	505	505
R-squared	0.0860	0.1417	0.1420	0.1417

Note. Standard errors are in parentheses. Robust RE = robust random effects. *** $p < .01$, ** $p < .05$, * $p < .10$. The robust RE model is the main interpretive model because it reports robust standard errors while retaining the panel structure.

Table 7 shows that audit committee share ownership has a positive and statistically significant effect on financial reporting quality in the robust random-effects model (B = 0.0313, SE = 0.00643, $p < .01$). This is the strongest audit committee result in the model and supports the incentive-alignment argument. It suggests that when audit committee members hold shares, they may have stronger motivation to protect firm value, prevent reputational damage, and monitor financial reporting decisions more carefully. The positive sign is stable across the fixed-effects, random-effects, pooled OLS, and robust random-effects specifications, which improves confidence in the direction of the relationship.

Audit committee financial expertise has a positive and weakly significant effect in the robust random-effects model (B = 0.223, SE = 0.117, $p < .10$). This result supports the competence argument, although the significance is weaker than the share ownership effect. The result is important because the descriptive statistics show low disclosure of financial expertise, suggesting that stronger appointment and disclosure practices may produce greater governance benefits. Financial expertise helps audit committee members review accrual estimates, internal controls, impairment assumptions, going-concern judgments, and external audit adjustments.

Audit committee independence is positive but statistically insignificant in the robust random-effects model (B = 0.0376, SE = 0.116). This does not mean that independence is irrelevant; rather, it suggests that formal independence may not be enough where independence is nearly universal in disclosure or where independent members lack expertise, time, authority, or active engagement. The finding is consistent with the statement of the problem because it shows that a committee can be structurally independent but not necessarily effective in improving reporting quality unless independence is combined with technical and incentive-based monitoring attributes.

Among the control variables, firm size is positive and statistically significant across the main specifications, indicating that larger firms are more likely to have stronger reporting systems, professional accounting departments, internal audit functions, and external monitoring. Firm age is positive and weakly significant in the robust model, suggesting that older firms may benefit from accumulated reporting routines and institutional experience. Profitability is negative and significant in the robust model, implying that profitable firms may face incentives to manage accruals or that profitability is associated with the behavior of the FRQ proxy. The result should be interpreted with caution and future studies should test alternative profitability measures and winsorized specifications.

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4.4 Hypotheses Decision

Table 8

Hypotheses Decision Summary in Null Form

Hypothesis	Statement	Statistical result	Decision
H01	Audit committee independence has no significant effect on financial reporting quality.	Positive but not significant	Fail to reject H01
H02	Audit committee share ownership has no significant effect on financial reporting quality.	Positive and significant	Reject H02
H03	Audit committee financial expertise has no significant effect on financial reporting quality.	Positive and weakly significant	Reject H03 at 10%

Note. Decisions are based on the robust random-effects model.

The hypothesis decision shows that the null hypothesis for audit committee independence is not rejected because the coefficient is not statistically significant. The null hypothesis for audit committee share ownership is rejected because the coefficient is positive and significant at the 1% level. The null hypothesis for audit committee financial expertise is rejected at the 10% level because the coefficient is positive and weakly significant. The research findings demonstrate that ownership incentives and financial competence have greater importance than formal independence which is shown through the empirical results.

Discussion of Findings

The first finding shows that audit committee independence has a positive but statistically insignificant effect on financial reporting quality. The independent members according to agency theory need to supervise management activities because they should decrease unauthorized reporting, which Klein (2002) and Xie et al. (2003) and Abbott et al. (2004) and Bedard et al. (2004) and Beasley (1996) confirmed. The Nigerian result demonstrates that independence exists as a formal requirement when members lack the necessary technical skills and knowledge and availability and strength to oppose management decisions. Kibiya et al. (2016) and Ibrahim et al. (2024) provide Nigerian evidence that audit committees matter, while Tijani et al. (2025) show that the reform environment can change interpretation. The present finding therefore indicates that independence should be understood as a foundation for oversight, not as a complete guarantee of reporting quality.

The second finding shows that audit committee share ownership significantly improves financial reporting quality. The findings support Jensen and Meckling (1976), who argue that ownership can reduce agency costs by aligning interests, and it is consistent with Warfield et al. (1995), who connect ownership with earnings informativeness. Kibiya et al. (2016) provide direct Nigerian evidence that audit committee share ownership can motivate monitoring, while Bhagat and Bolton (2008) show that governance and ownership can influence firm outcomes. The study demonstrates that ownership above a certain threshold will result in protection of company interests, which creates problems for directors according to Morck et al. (1988). The interpretation is therefore that moderate and transparent audit committee share ownership can improve monitoring incentives, but excessive or poorly disclosed ownership may weaken independence and minority shareholder protection.

The third finding shows that audit committee financial expertise has a positive and weakly significant effect on financial reporting quality. Bedard et al. (2004) and DeFond et al. (2005) show that the results of the study confirm their earlier research findings.

Conclusion

The research investigated how auditor independence and share ownership and financial expertise of audit committee members impacted financial reporting accuracy of Nigerian non-financial organizations which operated from

2010 until 2025. The research began with agency theory which received support from resource dependency theory and incentive alignment theory. The research utilized description statistics and diagnostic examinations and panel regression analysis and robust random-effects outcomes and data from public online capital market resources to evaluate its findings.

The study shows that financial reporting quality improves through audit committee members who hold shares and possess financial expertise while audit committee members who maintain independence show positive results which lack statistical significance. The results show that audit committee effectiveness requires both official independence and the presence of technical skills and the capacity to monitor and the dedication of members and the effectiveness of enforcement measures. Nigeria's emerging capital market needs stronger audit committees which should function as actual monitoring bodies instead of existing as basic compliance systems because investors need trustworthy financial information and governance details.

7. Recommendations

i. Regulators should require clearer disclosure of audit committee members' accounting, auditing, finance, governance, and professional qualifications rather than relying on broad statements of financial literacy.

ii. Listed firms should appoint audit committee members with demonstrable accounting or finance competence and should disclose the basis for classifying members as financial experts.

iii. Audit committee share ownership should be disclosed transparently and monitored to ensure that it aligns incentives without compromising independence of judgment or minority shareholder protection.

iv. Audit committees should meet regularly with external and internal auditors without management present, especially on accrual estimates, impairment, going-concern assumptions, related-party transactions, audit adjustments, and internal-control weaknesses.

Limitations and Suggestions for Future Research

The primary constraint arises from the absence of the complete firm-year database which prevented us from testing additional models through our research. The revision enables better understanding of the empirical results which were presented through their existing form but they did not conduct new tests for firm-level validation. The study is also limited by reliance on disclosed annual-report data; if firms under-disclose financial expertise or share ownership, measurement error may arise. Future research should examine alternative assessment methods which include discretionary accruals and restatements and audit report lag and earnings persistence and real earnings management as assessment methods for financial reporting quality.

Future research should conduct stronger post-CAMA 2020 analyses by estimating pre- and post-reform subsamples, adding interaction terms between independence and expertise, and testing whether audit committee meeting frequency changes the effect of financial expertise. The upcoming research should examine multiple factors which include industry fixed effects and year fixed effects and auditor type and audit fees and internal audit quality and board gender diversity and ownership concentration and audit committee tenure. The presence of a raw dataset enables us to perform winsorization and calculate robust-clustered standard errors and conduct Hausman tests and apply dynamic panel methods where suitable.

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