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The Effect Of Audit Committee Characteristics On The Quality Of Financial Reports Of Deposit Money Banks In Nigeria

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ABSTRACT
This study is designed to examine the effect of audit committee characteristics on the quality of financial reporting of deposit money banks in Nigeria. The expos facto research design was used, and secondary data was collected from the audited annual reports of selected listed deposit money banks in Nigeria. The multiple panel regression model was used to examine the effect of audit committee characteristics which is proxy by audit committee size and gender diversity on the quality of financial reporting. The result reveals that audit committee size has an inverse influence on the timeliness of the publication of the financial report. It is concluded from the study that audit committee characteristics does have a significant effect on the quality for financial reporting of deposit money banks in Nigeria. Therefore, it recommended that audit committee size should not be too large in order to improve the quality of financial reporting of listed deposit money banks in Nigeria.
Keywords: Gender diversity, Independence, Meeting frequency, Size, Timeliness

1.1. INTRODUCTION

The stability and transparency of financial institutions are critical pillars for economic development, especially in emerging economies like Nigeria, where deposit money banks (DMBs) serve as vital intermediaries in the financial system. These banks promote economic activities by mobilizing savings and channeling them into productive investments. However, the credibility of their financial reports has been a persistent concern due to instances of earnings management, misstatements, and financial scandals. The growing complexity of financial transactions, changing regulatory landscapes, and evolving corporate governance standards have heightened the demand for high-quality financial reporting. Central to this is the role of the audit committee, which acts as an internal governance mechanism to oversee financial disclosures and internal controls. The attributes of these audit committees including size, independence, gender diversity, expertise, and meeting frequency are increasingly recognized as crucial determinants of financial reporting quality (Babatayo et al., 2025).

In Nigeria, financial reporting quality is not only a measure of transparency but also an indicator of the overall health of the banking sector. Stakeholders ranging from regulators, investors, regulators, to customers rely on financial statements to make informed decisions. However, the propensity for earnings manipulations and financial misstatements in some Nigerian banks has raised questions about the effectiveness of existing governance mechanisms (Okoh & Audu, 2024). The extent to which audit committee characteristics influence the quality of financial disclosure remains an interesting and vital area

of inquiry, particularly within the regulatory context provided by Nigerian laws, such as the Companies and Allied Matters Act (2020).

Financial reporting quality in Nigerian deposit money banks has garnered considerable attention due to persistent concerns over earnings manipulations, misstatements, and lack of transparency. Despite regulatory efforts, instances of financial scandals and poor disclosures continue to undermine stakeholder confidence and threaten the stability of the banking sector (Okoh & Audu, 2024). One key mechanism intended to enhance the reliability of financial reports is the audit committee, which acts as an internal governance body overseeing financial disclosures, internal controls, and compliance with relevant standards (Chukwu & Nwabochi, 2019). However, the effectiveness of audit committees in Nigerian banks remains a subject of debate, with limited empirical evidence on how their specific attributes influence financial reporting quality.

Furthermore, although the role of gender diversity and financial expertise in improving oversight has been explored in global studies, there is scant empirical research focusing specifically on Nigerian banks (Francis et al., 2015). Consequently, the existing literature provides mixed and inconclusive results, with many studies predominantly focused on corporate governance broadly rather than the specific attributes of audit committees. This gap underscores the need for contextualized research to determine how these committee characteristics influence financial reporting quality in Nigeria's banking sector, guiding regulators and practitioners toward more effective governance frameworks.

1.2. Objectives of the Study

The main objective of this study is to examine the effect of audit committee characteristics on financial reporting quality of listed deposit money banks in Nigeria. While the specific objectives are to:

i. examine the effect of Audit Committee Size on Financial Reporting Quality of Listed Deposit Money Banks in Nigeria.
ii. investigate the effect of Gender Diversity on Financial Reporting Quality of Listed Deposit Money Banks in Nigeria.

1.3. Research Questions

i. What is the effect of Audit Committee Size on Financial Reporting Quality of Listed Deposit Money Banks in Nigeria?
ii. How does Gender Diversity affect Financial Reporting Quality of Listed Deposit Money Banks in Nigeria?

1.4. Research Hypotheses

$H0_1$: Audit Committee Size has no significant effect on Financial Reporting Quality of Listed Deposit Money Banks in Nigeria

$H0_2$: Gender Diversity has no significant effect on Financial Reporting Quality of Listed Deposit Money Banks in Nigeria

The remaining part of this study is structured to show the review of literature, the methodology, the analysis of data, discussion of findings, conclusion and recommendations.

2.0. LITERATURE REVIEW

The theoretical framework and empirical review are discussed in this section

1.2. Theoretical Framework

This study is framed on the agency theory, the theory was first formally articulated by Jensen and Meckling (1976) in their seminal paper titled "Theory of the firm: managerial behavior, agency costs and ownership structure." The theory is framed upon earlier foundational works in economics and organizational theory, especially those addressing the relationships between principals (owners) and agents (managers).

Agency theory is premised on some assumptions about the nature of human behavior, organizations, and contracts. It is assumed that there exists a potential conflict of interest between principals and agents due to differing goals (Eisenhardt, 1989). It is also assumed that the agent typically has more information about the day-to-day operations than the principal, leading to information asymmetry (Fama & Jensen,

1983). Furthermore, both parties are assumed to be rational and self-interested, seeking to maximize their individual utility (Jensen & Meckling, 1976). In addition, agents are generally assumed to be more risk-averse compared to principals (Eisenhardt, 1989). Finally, it is assumed that agency costs arise from monitoring the agent's behavior and bonding activities by the agent to guarantee alignment with the principal's interests.

Irrespective of its widespread application, agency theory has received several criticisms. For instance, critics opine that the theory overemphasizes opportunism and self-interest, neglecting intrinsic motivation and moral obligations (Donaldson & Davis, 1991). Daily et al. (2003) states that it tends to focus only on financial outcomes and efficiency, ignoring ethical, cultural, and social dimensions. Furthermore, agency theory assumes static, one-time contracts, overlooking the dynamics of relationships over time (Shapiro, 2005). Finally, the theory may not be fully applicable in non-Western contexts or organizations with different governance structures (Letza et al., 2004).

Despite criticisms, the theory remains widely used and supported in corporate governance, finance, and economics. Agency theory is the foundational theory for mechanisms such as board oversight, executive compensation, and shareholder rights (Fama & Jensen, 1983). The theory has influenced formal economic models dealing with insurance, contracting, and employment (Holmstrom, 1979). In addition, empirical studies confirm agency-related issues, such as earnings manipulation and executive entrenchment (Core et al., 1999). Finally, agency theory is integrated into strategic management studies, particularly in relation to CEO performance incentives and firm value (Hill & Jones, 1992).

Agency theory is considered in this study as it provides a foundational framework for understanding the relationships between principals and agents in various organizational contexts. Agency theory provides the basis on which monitoring activities such as audit committee and external audit are firmly established on. As the theory explains, these monitoring activities enhance financial reporting quality.

1.3. Empirical Review

Various studies have been conducted in relation to the theme of this study, for instance, Peekate and Okagbulem (2025) examined the effect of audit committee on the financial reporting quality of Nigerian consumer goods firms. Expost facto research design was used, and audit committee was represented by size and experience. The study shows that audit committee size does not have a significant impact on financial reporting quality while experience has a significant impact on financial reporting quality.

Alhumoudi (2024) conducted a study on the impact of audit committee characteristics on the quality of financial reporting of selected firms in Saudi Arabia. Secondary data was collected from the audited annual report of the selected firms making use of expost facto research design. Audit committee was represented by it's size, level of independence, financial expertise and frequency of meetings. The study reveals that there is a significant positive effect of audit committee expertise and meeting frequency on the quality of financial reporting.

Similarly, Alqatamin and Alqatamin (2024) carried out a study on audit committee characteristics and financial reporting quality among selected listed firms in Jordan. Expost facto research design was used, and secondary data was collected. Audit characteristics was measured by audit committee size, gender diversity, independence and meetings. The outcome from their study shows that audit committee size, gender diversity, independence, meeting frequency all have a significant relationship with the quality of financial reporting.

Lutfi et al. (2023) carried out a study on the influence of audit committee chairman on the quality of financial reporting among selected listed firms in Jordan. Expost facto research design was used, and secondary data was gotten from the audited annual report of the selected firms. Audit committee characteristics was represented by the independence of the audit committee chairman, accounting expertise and chair turnover. They revealed from the study that there is a strong negative correlation between the audit chairman's features and the external auditor opinions. In addition, the study shows that the audit committee chairman's features significantly enhance financial reporting quality.

Alkhazaleh et al. (2024) assessed the effect of audit committee characteristics on firm performance. Secondary data was used in this study, the proxies for audit committee characteristics are its size,

independence and expertise while financial performance is proxied with financial reporting quality. The findings from this study reveal that independence and expertise improve performance and that political connections also moderate the influences the effect of audit committee characteristics.

Gap in the Study

From the review of study, there seems to appear a practice gap. A practice gap occurs as more proportion of the literature reviewed focuses on varying industries with a few on the deposit money banks. Despite the important role played by the deposit money banks in an economy. Therefore, this study is designed to fill this gap by examining the impact of audit committee characteristics on the financial reporting quality of deposit money banks.

2. METHODOLOGY

The *expost facto* research design is used in this study. The population of this study includes all listed deposit money banks in Nigeria as at the end of December 31, 2023. According to the Nigeria Deposit Insurance Commission (NDIC) which amounts to eleven (11). The sampling technique adopted in this research is the total enumeration sampling method because of the small size of the population. The sample size is eleven, which represents the total number of the research population. Inferential statistics such as panel regression, t-test, analysis of variance (ANOVA) are used to make inferences from the data collected to test the research hypotheses, answer the research questions and to meet the specific objectives of this study.

The panel regression model is used in this study, and the specification is shown below:

$FRQ = a + \beta_1 ASZ_i + \beta_2 GDV_i + \mathcal{E}_i$

Where:

a = intercept where the independent variable is zero

FRQ = Financial reporting quality (Dependent Variable)

$\beta_1 ASZ_i$ = Audit committee size (Independent Variable)

$\beta_2 GDV$ = Gender diversity (Independent Variable)

$\mathcal{E}_i$ = Error Term

3. DATA ANALYSIS AND DISCUSSION OF FINDINGS

This section shows the result of the inferential analysis to enable the testing of the hypotheses formed in this study.

Table 4.2. Regression Result

Estimation Techniques	**Regression Result**			
Dependent Variable: FRQ	**Coeff.**	**Std. Err**	**T-Stat**	**Prob**
Constant	123.42	29.87	4.13	0.001
ASZ	-11.02	4.09	-2.69	0.009
GDV	-3.17	3.54	-0.9	0.373
Adjusted R^2	0.16			
F-Stat	$F_{(3, 80)}$ = 3.98 (0.003)			

Source: Researcher's Computation (2025)

The result from Table 4.2. Can be used to express the study model as shown below:

$FRQ = 123.42 - 11.02(X) - 3.17(X) + \mathcal{E}_i$

This shows that audit committee size does have a significant inverse influence on the timeliness of the publication of the financial report. This means that the smaller the audit committee size the longer it takes to publish the annual report and vice-versa.

The result also reveals that gender diversity does have an inverse non-significant influence on the time it takes to publish the financial report. This means that the more women are members of the audit committee, the more women are on the audit committee, the shorter the time it takes to publish the audited annual report.

Finally, the result shows that the model in this study accounts for only sixteen percent of the variables that influence the timeliness of financial report. It also provides a guide in the test of each hypothesis posed in this study.

Hypothesis One

$H_0$1: Audit committee size has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Decision: The computed p-value from this study is 0.009, which is lower than the set p-value of 0.05. This means that the null hypothesis is rejected and the alternate hypothesis which states that 'audit committee size has a significant effect on financial reporting quality of listed deposit money banks in Nigeria' is accepted.

Hypothesis Two

$H_0$2: Gender diversity has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Decision: The computed p-value is 0.373which is higher than the set p-value of 0.05, this means that the alternate hypothesis is to be rejected and the null hypothesis which states that 'gender diversity has no significant effect on financial reporting quality of listed deposit money banks in Nigeria' is accepted.

DISCUSSION OF FINDINGS

Research Question One: What is the effect of audit committee size on financial reporting quality of listed deposit money banks in Nigeria?

The result from this study shows that audit committee size does have a significant inverse influence on the timeliness of the publication of the financial report. This contradicts the position of Orife et al. (2022) who opined that audit committee size had a significant inverse effect on the quality of financial reporting. A possible reason for the variation in result might be because of industry specific features. While this study is focused on the banking industry, Orife et al. (2022) study was focused on the oil and gas industry.

This study, however, confirms the position of the institutional theory which explains the importance of institutions in enhancing the quality of financial reporting.

Research Question Two: How does gender diversity affect financial reporting quality of listed deposit money banks in Nigeria?

The result from this study shows that gender diversity does have an inverse non-significant influence on the time it takes to publish the financial report. This position is in variance with that of Alqatamin and Alqatamin (2024) who opined that audit committee gender diversity does indeed have a significant influence on the quality of financial report. A possible reason for the variation can be attributed to the environment in which both studies are carried out. While Alqatamin and Alqatamin (2024) carried out their study in Jordan, this study is carried out in Nigeria. Therefore, peculiarities in laws and culture might be possible reasons for the variations in the findings.

This finding on gender diversity does not confirm the position of the institutional theory with respect to the gender diversity of the audit committee. This means that while audit committee is an important institution, the gender composition of the committee is not a determinant on the effectiveness of the committee.

CONCLUSION AND RECOMMENDATION

The focus of this study is to examine the effect of audit characteristics on the quality of financial reports of deposit money banks in Nigeria. In conclusion, the study shows that audit committee characteristics have a significant influence on the quality of financial reporting in Nigeria.

It is recommended from this study that:

i. Audit committee's size of deposit money should not be too large as it hampers the quality of financial reporting.

ii. Appointment to the audit committee should not be based on gender bias but based on qualification to enhance the quality of financial reporting.

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