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Assessment Of Audit Committee Expert Report On Firm Size And Audit Quality Of Goods And Services In Delta State

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ABSTRACT
This study assessed the influence of audit committee expert reports on firm size and audit quality among goods and services companies in Delta State. Five objectives, along with corresponding research questions and hypotheses, were formulated to direct the inquiry. An ex post facto research design was employed, and the population comprised 11 firms producing goods and services in Delta State. Data were sourced from the companies' annual financial reports, and a purposive sampling technique was used to select the sample. The collected data were analysed using quantitative descriptive methods to summarise the information, and panel least squares regression was applied to test the hypotheses at a 0.05 significance level. The findings led to the conclusion that firm size has a significant effect on audit quality. Consequently, the study recommended that since total assets demonstrated a positive and significant influence on audit quality, goods and services firms in Delta State should continue to retain independent auditors to maintain the standard of their products and services.
Keywords: Audit Committee Expert Report; Firm Size; Audit Quality.

INTRODUCTION

The significance of corporate governance structures in improving the quality of financial reporting and audit processes is widely acknowledged. At a time when financial openness is essential for preserving investor trust and upholding corporate responsibility, the audit committee functions as a fundamental pillar of governance. It is responsible for overseeing financial reporting activities, risk management, and adherence to regulatory standards (Bédard, Gonthier, and Schatte, 2018). A vital element of a competent audit committee lies in the financial proficiency of its members. Audit committee members who possess financial literacy have the abilities and understanding required to interpret complex financial dealings, evaluate reporting quality, and identify possible anomalies that could compromise the integrity of audit results (García, Martinez & Garcia, 2017).

Firms in the goods and services sector, defined by capital-heavy operations and substantial transactions, necessitate strong governance frameworks to guarantee effective supervision. Their financial reporting procedures are naturally intricate, entailing considerable investments in plant, equipment, and infrastructure (Alves, 2021). Such complexities render the audit committee's function crucial for protecting the interests of shareholders and other parties by upholding rigorous audit standards. The financial competence within audit committees becomes especially pertinent in these organisations, allowing for thorough examination of financial statements and promoting accountability.

Firm size, another important determinant of audit quality, has been widely explored in accounting and governance research. Larger organisations generally possess greater resources to engage top-tier audit firms and establish sound internal control mechanisms, which can bolster the credibility of financial statements (DeFond & Zhang, 2018). Nonetheless, smaller entities can also attain elevated audit quality through streamlined governance frameworks and efficient oversight practices (Khan, Muttakin, & Siddqui, 2020). The evolving interplay between firm size and audit quality indicates that supplementary elements, like the financial expertise of the audit committee, might exert a moderating influence in this relationship.

The notion of audit committee financial expertise has attracted growing attention in recent times owing to its contribution to strengthening the committee's capacity to supervise audit functions effectively. Pucheta and García (2019) note that the availability of financial expertise on audit committees correlates with fewer financial restatements, greater conformity with accounting regulations, and enhanced overall audit quality. This holds particular significance in developing economies such as Nigeria, where the regulatory framework is maturing and governance shortcomings frequently affect corporate outcomes and market equilibrium.

In Nigeria, goods and services enterprises serve a vital function in economic progress by supplying fundamental infrastructure and aiding industrialisation. These businesses function within a demanding setting marked by regulatory intricacies, governance shortfalls, and market instability. The Nigerian Corporate Governance Code highlights the necessity for financially competent members on audit committees to fortify governance structures and raise audit quality (Financial Reporting Council of Nigeria [FRCN], 2018). Notwithstanding these provisions, numerous companies still encounter obstacles in executing sound governance practices, partly attributable to the lack of suitably qualified audit committee members (Ogundajo & Onakoya, 2016).

The industrial goods segment in Nigeria is especially susceptible to governance deficiencies due to the magnitude and breadth of its activities. Substandard auditing procedures have frequently been linked to financial controversies and business collapses, eroding investor assurance and jeopardising the soundness of financial markets (Amah & Nwokwu, 2021). Hence, the financial capability of audit committees is progressively regarded as an essential element in reducing risks and safeguarding the integrity of financial reporting procedures.

Studies have demonstrated that firm size affects audit quality, though this connection is not uniformly direct. Whereas larger companies are often more capable of securing reputable audit firms and allocating resources to internal control mechanisms, smaller entities may depend more substantially on the strength of their governance frameworks, including the audit committee (DeFond & Zhang, 2018). The moderating role of audit committee financial expertise yields a more refined insight into how governance mechanisms can be adapted to varying firm sizes to raise audit quality. For illustration, García-Sánchez et al. (2017) discovered that audit committees comprising members with financial competence were more adept at tackling the distinct challenges encountered by both large and small companies, resulting in superior audit outcomes.

The interconnection among firm size, audit committee financial expertise, and audit quality bears particular relevance in Nigeria, where industrial goods firms make substantial contributions to the national economy. These enterprises are pivotal in stimulating economic expansion, generating employment, and advancing infrastructural growth. Nevertheless, their contribution is frequently impeded by governance obstacles and irregularities in financial reporting procedures (Amah & Nwokwu, 2021). Bolstering the financial expertise within audit committees can assist in remedying these concerns by furnishing the requisite oversight to guarantee conformity with regulatory benchmarks and improve audit quality.

Furthermore, the shifting regulatory environment in Nigeria accentuates the necessity of harmonising corporate governance practices with international standards. Incorporating financial expertise into audit committees represents a measure towards attaining this harmonisation, as it endows companies with the ability to satisfy global auditing and reporting criteria. Research by Pucheta-Martínez and García-Meca

(2019) emphasises the vital contribution of financial expertise in enabling audit committees to supervise financial reporting functions effectively, reduce risks, and promote corporate openness.

The moderating influence of audit committee financial expertise on the connection between firm size and audit quality provides significant understanding of governance dynamics within goods and services firms in Delta State. By concentrating on this nexus, the paper seeks to enhance the comprehension of how financial expertise within audit committees can elevate audit quality, foster accountability, and underpin the enduring expansion of goods and services enterprises in Delta State.

Statement of the Problem

Audit quality is fundamental to guaranteeing the dependability, trustworthiness, and openness of financial reporting. Audits of high calibre furnish stakeholders with assurance regarding the precision of financial accounts, consequently nurturing confidence and steadiness in financial markets. Firm size has long been acknowledged as a key factor influencing audit quality. Larger firms tend to correlate with superior audit quality because of their capacity to employ respected audit firms, establish strong internal controls, and adhere to stringent regulatory standards. By contrast, smaller firms frequently encounter resource limitations that may undermine their audit quality (DeAngelo, 1981; Al-Rassas & Kamardin, 2016). Nonetheless, empirical findings concerning the link between firm size and audit quality remain unsettled.

The function of audit committees, most notably the financial proficiency of their members, has become a key focus of auditing scholarship. Financial expertise on the audit committee bolsters members' ability to monitor the audit process, detect material misstatements, and guarantee the trustworthiness of financial disclosures. However, the effect of audit committee financial expertise on the firm size–audit quality relationship has been inadequately examined, particularly within the setting of goods and services firms in Delta State. These companies possess distinctive operational traits, often defined by substantial capital requirements, regulatory demands, and operational intricacy. Such features generate specific challenges that shape auditing procedures and governance configurations (Egbunike & Abiahu, 2017). Notwithstanding the vital significance of these firms to the Nigerian economy, scant empirical research has explored how governance instruments, such as audit committee financial expertise, combine with firm size to influence audit quality in this sector. This void is especially troubling considering that robust auditing in industrial goods companies is indispensable for preserving investor assurance, stimulating economic development, and guaranteeing adherence to global financial reporting norms. While extant studies offer useful perspectives, they do not tackle the interplay between firm size and audit committee financial expertise in shaping audit quality. Additionally, many of these investigations are located in advanced economies, creating a considerable knowledge deficit in Nigeria, where institutional, regulatory, and economic circumstances diverge considerably.

This research seeks to address these deficiencies by exploring the moderating role of audit committee financial expertise on the firm size–audit quality relationship within goods and services firms in Delta State. Through filling this void, the investigators aim to deliver a sophisticated insight into the factors affecting audit quality in Nigeria, carrying consequences for corporate governance practice, regulatory formulation, and stakeholder interaction.

Objectives of the Study

The overarching aim of the study is to evaluate the audit committee expert report concerning firm size and audit quality of goods and services firms in Delta State. The precise objectives are to:

1. Examine the total assets in relation to audit quality of goods and services firms in Delta State.
2. Explore the impact of total revenue on audit quality of goods and services firms in Delta State.
3. Analyse the influence of market capitalisation on audit quality of goods and services firms in Delta State.
4. Ascertain the effect of employee numbers on audit quality of goods and services firms in Delta State.
5. Determine the influence of company location on audit quality of goods and services firms in Delta State.

Research Questions

The subsequent research questions were formulated to enable the researcher to fulfil the stated objectives.

1. What is the total assets position concerning audit quality of goods and services firms in Delta State?
2. How does total revenue affect audit quality of goods and services firms in Delta State?
3. What influence does market capitalisation exert on audit quality of goods and services firms in Delta State?
4. What effect does the number of employees have on audit quality of goods and services firms in Delta State?
5. How does company location affect goods and services firms in Delta State?

Research Hypotheses

The following hypotheses were constructed to direct the investigation and were examined at a 0.05 significance level.

HO1: Total assets exert no significant effect on audit quality of goods and services firms in Delta State.

HO2: Total revenue does not significantly affect audit quality of goods and services firms in Delta State.

HO3: Market capitalisation has no significant influence on audit quality of goods and services firms in Delta State.

HO4: The number of employees exerts no significant effect on audit quality of goods and services firms in Delta State.

HO5: Company location has no significant effect on audit quality of goods and services firms in Delta State.

METHODS

This study utilised an ex-post facto research approach, which is fitting for examining historical data to ascertain relationships between variables. The ex-post facto method is especially applicable since it entails employing secondary data gathered across a set period without altering the variables under examination. The paper explores the connections among firm size, total assets, total revenue, market capitalisation, and employee numbers, and assesses the effect of the audit committee expertise report. This approach permits a structured exploration of causal linkages and facilitates the inclusion of control variables, such as firm age, to separate the impacts of the principal variables. The research was executed in Delta State focusing on goods and services enterprises. The study depends on secondary data that are archival and publicly accessible. These data were obtained from the annual financial statements of goods and services companies operating in Delta State. Such sources offer comprehensive and dependable information on the dependent, independent, moderating, and control variables throughout the study duration.

The population consists of all goods and services enterprises in Delta State. These organisations are selected because they adhere to rigorous financial reporting requirements and maintain audit committees, rendering them appropriate for analysing the effect of audit committee financial expertise on audit quality. The sample size is established through purposive sampling. Firms are chosen according to the following benchmarks: availability of full financial and governance records for the investigation period, and the presence of an audit committee with reported financial expertise. On the basis of these benchmarks, the sample encompasses 12 companies, constituting a substantial segment of goods and services enterprises in Delta State. The research applies quantitative data analysis to investigate the relationships among the variables.

Descriptive statistics was employed to condense the data, yielding understanding of the dispersion and central tendencies within the dataset. Inferential statistics, particularly regression analysis, are utilised to examine the hypotheses, as this approach permits the evaluation of cause-and-effect connections. It was determined that the null hypothesis is rejected should the p-value for the estimated coefficients fall below 0.05 (at a 95% confidence threshold). The null hypothesis is accepted when the p-value surpasses the 0.05 significance level.

DATA ANALYSIS OF RESULTS

Table 1: Descriptive Statistics

	AQ	TA	TR	MC	NE	IPGL	ACFE	FA
Mean	0.210	3.747	3.343	4.848	6.116	5.727	59.364	49.045
Median	0.340	3.336	3.023	4.675	5.814	6.000	55.000	45.500
Maximum	0.720	7.752	7.124	7.752	9.983	6.000	80.000	84.000
Minimum	0.050	1.609	0.693	2.303	4.500	4.000	40.000	23.000
Std. Dev.	0.168	1.661	1.687	1.298	1.441	0.619	13.527	14.800
Skewness	0.144	0.970	0.616	0.367	1.548	-2.077	0.280	0.484
Kurtosis	2.165	3.185	2.758	3.016	4.796	5.806	1.607	2.508
Jarque-Bera	3.577	17.404	7.233	2.472	58.738	115.183	10.332	5.403
Probability	0.167	0.000	0.027	0.291	0.000	0.000	0.006	0.067
Sum	38.530	412.155	367.686	533.322	672.755	630.000	6530.000	5395.000
Sum Sq. Dev.	3.068	300.623	310.174	183.667	226.232	41.818	19945.455	23874.773
Observations	110	110	110	110	110	110	110	110

The descriptive statistics presented in Table 1 reveal a generally moderate level of audit quality (AQ), with a mean value of 0.210 and a range from 0.050 to 0.720. This suggests that, on average, the firms in Nigeria's industrial goods sector devote approximately 21.0% of total fees to audit services. The measures of firm characteristics also highlight substantial variability across the sample. Total assets (TA) and total revenue (TR), both logarithmically transformed, have means of 3.747 and 3.343 respectively, with relatively high standard deviations (1.661 and 1.687), indicating significant differences in firm size and operational scale across the sample. Market capitalization (MC) displays a mean of 4.848, suggesting moderately large firms overall, while the number of employees (NE) has a mean of 6.116, indicating firms with a relatively substantial workforce. The industry position and geographical location variable (IPGL) has a mean of 5.727, highlighting a concentration of firms in the southern and south-western zones of Nigeria. Meanwhile, the average Audit Committee Financial Expertise (ACFE) is roughly 59.4%, suggesting that most firms have a moderately well-qualified audit committee, and firm age (FA) has a mean of approximately 49 years, indicating that many firms have long operational histories.

In terms of distribution, the skewness and kurtosis statistics reflect the nature of the data across variables. Total assets (0.970) and total revenue (0.616) display mild right skewness, suggesting that a subset of firms have substantially larger sizes compared to the rest. Number of employees (1.548) is highly skewed, implying significant disparity in workforce sizes across firms, while IPGL is negatively skewed (-2.077), indicating a clustering of firms in certain geographical zones. The Jarque–Bera statistics and associated p-values point to the rejection of normality for several variables such as TA, TR, NE, IPGL, and ACFE, suggesting that the data may require robust statistical techniques for further analyses. Overall, the results capture a diverse range of firm characteristics within Nigeria's industrial goods sector from 2015–2024, providing a solid basis for assessing the moderating role of audit committee financial expertise on the relationship between firm size and auditing quality.

Table 2: Panel Least Squares Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TA	0.523***	0.158	3.302	0.000
TR	-0.255	0.202	-1.260	0.900
MC	0.342**	0.131	2.613	0.021
NE	-0.024	0.055	-0.433	0.666
IPGL	-0.039	0.042	-0.928	0.355
FA	0.001	0.001	0.381	0.704

The results of the panel least squares regression presented in Table 2 reveal significant moderating effects of Audit Committee Financial Expertise (ACFE) on the relationship between firm size variables and audit quality (AQ) across the sampled companies. The interaction terms TA*ACFE (coefficient = 0.451, p = 0.032), TR*ACFE (coefficient = 0.834, p = 0.000), MC*ACFE (coefficient = 2.127, p = 0.000), and FA*ACFE (coefficient = 1.736, p = 0.000) are all significant, indicating that ACFE strengthens the positive impact of total assets, total revenue, market capitalization, and firm age on audit quality. In contrast, the NE*ACFE interaction (coefficient = 0.397, p = 0.384) and IPGL*ACFE interaction (coefficient = 0.000, p = 0.701) are not significant, suggesting that ACFE does not substantially moderate the effects of number of employees and geographical location of firms on their audit quality. These findings imply that the expertise of the audit committee is critical in leveraging certain size-related characteristics of firms to improve the quality of auditing, especially those related to financial size and corporate longevity.

The model provides a satisfactory fit for the data, with an R squared value of 0.3788, indicating that approximately 37.9% of the variations in audit quality across firms are explained by the combined effects of the interaction terms and the control variable. The adjusted R squared of 0.2817 further confirms the model's explanatory strength after adjusting for the number of predictors. The F statistic (6.758, p = 0.0067) suggests that the overall model is statistically significant, while the Durbin–Watson statistic of 2.22 confirms the absence of serious autocorrelation in the residuals. In general, the results highlight the pivotal role that a well-qualified and financially literate audit committee can play in reinforcing the association between certain measures of firm size and enhanced audit quality within Nigeria's industrial goods sector.

DISCUSSION OF FINDINGS

Total assets and auditing quality: Total Assets (TA) had a positive and statistically significant effects on audit quality. The coefficient was 0.523 with a p-value of 0.000, indicating a strong relationship on the 1% significance level. This suggests that, firms with higher total assets tend to engage more independent and quality audit services, possibly due to their complex financial structures and higher scrutiny from stakeholders. Total revenue and auditing quality: Total Revenue (TR) showed a negative and statistically insignificant effect on audit quality, with a coefficient of -0.255 and a p-value of 0.900. This implies that, contrary to expectation, higher revenue does not necessarily translate into higher audit quality in the sampled firms.

Market capitalisation and auditing quality: Market Capitalisation (MC) also had a positive and statistically significant impact on audit quality, with a coefficient of 0.342 and a p-value of 0.021, significant at the 5% level. This indicates that, firms with greater market value are more likely to adopt high audit standards to maintain their public credibility and investor confidence. Number of employees and auditing quality: Number of Employees (NE) had a negative and statistically insignificant relationship with audit quality. The coefficient was -0.024 and the p-value was 0.666, suggesting that the size of a firm's workforce does not play a significant role in determining the quality of its audit processes.

Industry position/geographical location and auditing quality: Industry Position and Geographical Location (IPGL) had a negative and statistically insignificant effect on audit quality, with a coefficient of -0.039 and a p-value of 0.355. This indicates that the location of a firm or its industry positioning does not have a meaningful influence on the independence or quality of its audit engagement.

CONCLUSION

The financial expertise of an audit committee plays a crucial moderating role by reinforcing the positive link between audit quality and specific indicators of firm size namely total assets, total revenue, market capitalization, and firm age. The analysis of interaction effects showed that companies whose audit committee members possessed financial literacy were considerably more capable of preserving auditor independence and boosting audit performance. This indicates that having financial experts on audit committees goes beyond mere regulatory compliance; it serves as a strategic governance advantage that

enhances oversight, helps detect financial misstatements, and ensures that auditors act with objectivity and integrity. Furthermore, it underscores that the advantages of larger firm size such as greater resources and public exposure do not automatically lead to improved audit outcomes unless supported by robust internal governance frameworks. Essentially, audit committee financial expertise acts as a protective measure against potential managerial misconduct and poor financial reporting, issues that tend to be more common in large and complex organizations. This moderating effect becomes especially important in older firms, where legacy systems and long-established financial practices may lead to complacency and weak internal controls, thereby undermining audit effectiveness. By ensuring that audit committees include members with the knowledge and technical skills to scrutinize financial data, pose pertinent questions, and challenge management when needed, companies can substantially elevate audit quality. This finding reinforces the notion that enhancing audit quality in Nigeria's industrial goods sector calls for a two-pronged strategy: strengthening financial capacity while also improving corporate governance through thoughtful board appointments.

RECOMMENDATION

Based on the findings, the following recommendations are made:

1. Given the study's finding that audit committee financial expertise significantly strengthens the positive relationship between firm size particularly total assets, total revenue, and market capitalisation and audit quality, it is advised that corporate boards in goods and services producing companies ensure that a majority of audit committee members hold professional accounting or finance credentials. Such a requirement would improve oversight functions and support auditor independence, especially in larger firms where financial complexity tends to be greater.
2. Considering the important moderating role of financial expertise, regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should implement policies that mandate minimum financial literacy standards for audit committee members. This should apply especially to publicly listed companies with high market capitalisation or long operating histories. Doing so would formalise competence and lower the likelihood of weak audit oversight.
3. Since total assets and market capitalisation were found to have a significant positive influence on audit quality, while employee count and geographic location did not, companies should focus their investments on independent, high-quality audit services based on financial scale rather than on workforce size or physical footprint. Managers and audit planning teams ought to align audit budgets and oversight priorities with financial size indicators, not merely with operational reach.
4. Given that total revenue did not show a significant effect on audit quality, finance departments and internal control units should reconsider placing revenue alone at the centre of audit risk evaluation. Instead, greater emphasis should be placed on more robust structural measures, such as total assets and firm valuation.
5. The finding that firm age, when combined with audit committee financial expertise as a moderating factor, significantly improved audit quality indicates that older firms must regularly update both the training and composition of their audit committees. Management should carry out periodic skills assessments and invest in ongoing professional development to ensure that audit committee members remain current with evolving standards and the risks associated with established financial practices.

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