

AUDIT COMMITTEE INDEPENDENCE AND FINANCIAL REPORTING QUALITY OF LISTED MANUFACTURING FIRMS IN NIGERIA: MODERATED BY GENDER DIVERSITY

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Abstract

Given Nigeria's continuous financial reporting issues, notably the Oando Plc incident and longstanding security and exchange commission-reported fraud cases, questions remain over the veracity of business disclosures in the manufacturing sector. This study examines the effect of audit committee independence on financial reporting quality of listed manufacturing firms in Nigeria and moderated by audit committee gender diversity. The population of the study consisted of 46 listed firms drawn from the agriculture, consumer products, healthcare, and industrial goods sectors for the period 2010 to 2023. A purposive sampling technique was adopted to select firms that met predefined criteria, including continuous listing status and availability of complete annual reports throughout the study period. Based on these criteria, a final sample of 35 firms was retained for analysis. The study adopted an ex-post facto research design, consistent with its reliance on historical secondary data. Data were analysed using Generalized Least Squares (GLS) panel regression, which was employed as the estimation technique to obtain efficient and unbiased coefficients in the presence of heteroskedasticity and other panel-specific disturbances. Findings reveal that audit committee independence has a positive but statistically insignificant effect on financial reporting quality while gender diversity exhibits a negative and statistically significant impact. Additionally, the interaction between independence and gender diversity is positive but statistically insignificant. Therefore, the study recommends that regulatory authorities and firm management strengthen governance structures that enhance the quality and consistency of financial disclosures across listed firms. This study suggests that Nigerian corporate governance policy should strengthen the functional involvement of independent and female audit committee members so that their roles translate into better oversight and more credible financial reporting.

Keywords: audit committee independence, gender diversity, financial reporting quality, listed manufacturing firms

1. Introduction

Financial reporting quality should provide information that is relevant, faithfully represented, comparable, verifiable, timely, and understandable, so that stakeholders can make trustworthy and informed decisions (International Financial Reporting Standards [IFRS] Foundation, 2023). In order to give the users of financial

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statement a genuine foundation for assessing an organization's financial condition and performance, these standard highlights that financial statements must provide clear, precise, and reliable information that accurately reflects the organization's economic activities.

Recent studies also emphasize that financial reporting quality (FRQ) reflects the degree to which reported financial information truthfully depicts a firm's financial position, performance, and cash flows, without material misstatements or bias (Oluwagbemiga & Adeyemi, 2022; Hassan & Okoye, 2024). In essence, FRQ is achieved when financial statements offer a credible and unbiased representation of a company's underlying economic reality. In Nigeria, the manufacturing sector is a critical driver of economic growth, contributing significantly to gross domestic product and employment (National Bureau of Statistics, 2022). However, the sector faces challenges such as poor earnings management, liquidity crises, and corporate governance failures, which undermine FRQ (Olaoye et al., 2019).

According to Aifuwa et al. (2018), users of financial reports must ensure that the quality of the reports is maintained in order to improve transparency, investment outcomes, economic decision-making, and resource allocation. Financial reporting refers to the public's access to an organization's financial results. The fundamental purpose of financial reporting is to share a company's financial data with relevant stakeholders. The financial statement remains the most critical component of the financial reporting system. It is one of the primaries means by which companies communicate their financial performance and position to report users. To make informed decisions, investors and financial experts rely on these financial statements (Yahaya & Adebola, 2011). It is therefore inappropriate to deliberately manipulate financial statements with the intent to mislead users (Kibiya et al., 2016).

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For every fiscal year, managers are in charge of creating and delivering annual reports in accordance with the relevant financial reporting regulations. They are given the freedom to use professional judgment when fulfilling this duty as long as it stays within the bounds of accepted accounting standards. However, managers may abuse this flexibility by using the latitude permitted by accounting standards to generate arbitrary estimates that could lower the quality of financial statements (Mehdi et al., 2021). The adoption of (IFRS) is therefore often justified by the increasing expectations of stakeholders for enhanced transparency, greater disclosure, and more reliable, high-quality financial information.

The audit committee, as an important corporate governance mechanism, plays a pivotal role in ensuring FRQ by overseeing financial reporting processes and internal controls (Narwal & Jindal, 2018). Audit Committee Independence (ACI) refers to the condition in which members of an organization's audit committee primarily non-executive directors are free from any relationships, affiliations, or interests that could compromise their objectivity, impartiality, and judgment in overseeing financial reporting and internal control processes (Nigerian Code of Corporate Governance, 2018; Alfrah & Alanezi, 2020). An independent audit committee member is expected

to provide unbiased oversight, monitor management effectively, ensure compliance with accounting standards, and safeguard the quality and reliability of financial statements.

Adegbite and Olayemi (2023) asserted that gender diversity on audit committees is an essential governance instrument that improves the standard of corporate board oversight and decision-making. Diverse viewpoints are more likely to be included by gender-diverse audit committees, which can result in better financial reporting quality and more efficient monitoring. As noted by Al-Dhamari et al. (2022), the presence of women on audit committees contributes to greater diligence, ethical sensitivity, and risk aversion, all of which support higher financial reporting quality. Audit committee gender diversity is thus regarded as an essential element in ensuring the transparency and accountability of corporate financial disclosures (Obi et al., 2024). The effectiveness of audit committees can be significantly enhanced when gender diversity is prioritized, ultimately reinforcing investor confidence and corporate integrity.

The importance of financial reporting quality is what drives this study since it is crucial for spotting market trends and how they affect the economy, and it forms the basis for investor and stock market decisions. The information provided by audited financial statements is reliable. Since stakeholders rely on the audit report, users may find it useful in making informed decisions if it is accurate, reliable, and transparent. Furthermore, the quest for the quality of companies' financial information has become phenomenal in Nigeria given the rising exposure of domestic entities to international capital markets and the implementation of (IFRS). This study addresses the persistent issue of (FRQ) in Nigeria. Manipulation of earnings, poor audit oversight, and non-compliance with corporate governance codes remain critical concerns in the corporate environment. Misstated profits and unreliable disclosures mislead stakeholders and undermine trust in financial reports, affecting investment and regulatory decisions.

A notable example is the 2021 financial reporting scandal at Oando Plc, where the Securities and Exchange Commission (SEC) in Nigeria uncovered significant misconduct. These included misleading disclosures, overstated profits, and board decisions made without proper authorization. The firm was found to have inflated its earnings and carried out related-party transactions without sufficient transparency, leading to regulatory penalties and the suspension of senior executives (SEC Nigeria, 2021). This incident highlights persistent problems in Nigeria's corporate landscape namely, weak governance structures, poor transparency, and financial misrepresentation (Okereke & Adegbie, 2023).

In Nigeria, the Securities and Exchange Commission (SEC) reported approximately 1,639 fraud-related cases in 2011, resulting in losses totalling about ₦2.96 billion. The following year, 2012, recorded the highest losses of approximately ₦50.32 billion from 3,380 instances of fraud. According to Noah (2013) and SEC reports (2012, 2013), 2013 witnessed the highest number of fraud-related cases in Nigeria, with 3,756 instances leading to losses of around ₦40.72 billion. This alarming trend highlights persistent challenges in financial reporting and raises significant concerns regarding the reliability and integrity of financial statements within the Nigerian financial market.

Previous studies examining the relationship between audit committee independence and the quality of financial reporting have yielded a mix of results. For example, research conducted by Aminu (2024), Saif et al. (2024), Moses (2024), Ajape et al. (2023), Rasheed (2022), Majiyebo (2018), Amran (2017), and Kibiya et al. (2016) found that a more independent audit committee tends to positively influence the quality

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of financial reporting. Conversely, some studies, including those by Aminu (2024) and Rasheed (2022), indicated that audit committee independence might not significantly affect, or could even negatively impact, financial reporting quality. Additionally, other investigations such as Moses, 2024; Majiyebo, 2018; Kibiya et al., 2016) suggested that while audit committee independence does have a positive effect, it may not be statistically significant when it comes to financial reporting quality.

A review of existing empirical studies reveals a gap in understanding the impact of audit committee independence on the financial reporting quality of manufacturing firms in Nigeria. While prior studies have established a direct relationship between audit committee characteristics and financial reporting quality, most of these studies, including Adeyemi and Fagbemi (2018), Ahmed et al. (2020), and Majiyebo et al. (2022), did not examine any moderating effect. Consequently, the potential moderating role of audit committee gender diversity remains largely unexplored.

Audit committee gender diversity, as a moderating variable, is important because diverse perspectives within the committee can influence how audit committee independent impacts (FRQ). Therefore, this study examines the effect of audit committee independent on FRQ of manufacturing firms in Nigeria, with audit committee gender diversity serving as a moderator. The main objective of the study is to examine the effect of audit committee independent on FRQ of manufacturing firms in Nigeria moderated by gender diversity as stated in the null hypothesis below:

H₀₁: Audit committee independence has no significant effect on FRQ of manufacturing firms in Nigeria

H₀₂: Audit committee gender diversity does not significantly moderate the effect of audit committee independence on FRQ of manufacturing firms in Nigeria.

2. Literature Review

This study reviewed the literature on financial reporting quality, audit committee independence and audit committee gender diversity under three major headings namely: Conceptual review, theoretical review and empirical review.

Financial Reporting Quality

According to the Financial Accounting Standards Board (FASB, 2010), FRQ is a transparent report that possesses desirable qualitative attributes and high trust. Furthermore. Financial reporting quality was defined by Apochi and Mustapha (2022) as an accounting report that accurately reflects a company's true and fair value. Financial reporting quality, according to Ekwe et al. (2020), is accounting data that is accurate, timely, and relevant so that users may plan, assess, and discover issues. Giving consumers access to high-quality financial data about the company so they may make financial decisions is the goal of financial reporting (Ismail et al., 2023).

Abdulrazak (2013) asserts that accurate presentation of a company's obligations, net earnings, and income-generating resources is a key component of high-quality financial reporting. Reporting quality and earnings quality are two interconnected lenses that are frequently used to assess the quality of financial reporting. The clarity and completeness of the data shown in financial statements, which must appropriately depict the business's operations both throughout and at the conclusion of the reporting period, are referred to as reporting quality. Poor reporting quality makes it difficult for stakeholders to evaluate performance and make wise decisions. Therefore, improving accountability and transparency need high-quality financial reports.

The Conceptual Framework for Financial Reporting, issued by the FASB and IASB, outlines main qualitative characteristics of useful financial information, such as relevance, faithful representation, comparability, verifiability, timeliness, and understandability. These qualities are classified into fundamental and enhancing characteristics, and together they underpin the credibility of financial statements. For the purpose of this study, financial reporting quality (FRQ) is operationally defined as the extent to which a firm's financial statements provide accurate, complete, and reliable information, reflecting the true financial performance and position of the firm, and minimizing the scope for earnings management. It is measured using qualitative characteristics using content analysis.

Audit Committee Independence (ACI)

Audit committee independence (ACI) refers to the condition in which members of an organization's audit committee primarily non-executive directors are free from any relationships, affiliations, or interests that could compromise their objectivity, impartiality, and judgment in overseeing financial reporting and internal control processes (Nigerian Code of Corporate Governance, 2018; Alfraih & Alanezi, 2020). An independent audit committee member is expected to provide unbiased oversight, monitor management effectively, ensure compliance with accounting standards, and safeguard the quality and reliability of financial statements.

An audit committee independent might institute stronger internal control and good monitoring of the financial reporting process in a company (Adesewa & Promise, 2020). More so, Al-qublani et al. (2020) reported that independent audit committee assists in balancing the disparate viewpoints of external and internal auditors to generate a financial report of higher quality. Consequently, the functions and roles of an independent audit committees are highly linked to a reduced time required to issue the audit report. However, Habib and Muhammadi (2018) alluded that companies with independent audit committees might necessitate external auditors to carry out extra audit efforts to identify possibilities of misstatements and meet reporting target.

According to Soyemi et al. (2019), audit committee independent that comprises a proportionate number of non-executive directors has the ability to ensure quality of financial report because of their independent judgement. Aifuwa et al. (2020) asserted that an independent audit committee significantly reduces the likelihood of fraud and all forms of financial improprieties and protects the interest of shareholders and guarantees the timeliness of financial reports to improve shareholders' confidence and attract potential investors. Hence, Nouraldeen et al. (2021) documented that the independency of the audit committee enhances its oversight duty and assures quality of the audited financial statements and audit reports. Olatunde (2021) alluded that independent members of the audit committee could fairly look into financial statements and observe components such as equity, net income, total assets, and sales, which represent the performance and financial position of the firm.

In this study, audit committee independence (ACI) refers to the presence and proportion of non-executive and independent directors within the audit committee who are free from relationships or interests that could compromise their objectivity (Soyemi et al., 2019; Aifuwa et al., 2020). These independent members are tasked with monitoring and overseeing the financial reporting process, ensuring the accuracy, reliability, and timeliness of financial statements, protecting shareholders' interests, and reducing the likelihood of financial fraud (Nouraldeen et al., 2021; Olatunde, 2021). For empirical measurement, ACI can be quantified as the ratio of independent non-executive members to total audit committee members, reflecting the committee's capacity to exercise unbiased judgment and strengthen financial reporting quality.

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Audit Committee Gender Diversity

Audit committee gender diversity refers to the inclusion and active participation of women in a company's audit committee, emphasizing not just their presence but their contribution to governance and oversight. According to Carter et al. (2019), a higher proportion of women enhances critical thinking and reduces groupthink, while Adams and Ferreira (2019) note that women often bring ethical sensitivity, diligence, and a risk-averse approach, which strengthen monitoring functions and corporate accountability.

Study by Ntim et al. (2015) and Torchia et al. (2022) suggests that female members offer unique perspectives, increased scepticism, and attention to detail, improving the quality of financial reporting. Their presence enhances transparency, reduces earnings manipulation, and fosters better communication between auditors and management (Post & Byron, 2019; Raghunandan & Rama, 2016; Abdelaziz & Hussainey, 2022).

In this study, audit committee gender diversity (ACGD) refers to the inclusion and active participation of women in a company's audit committee, with emphasis on their contribution to corporate governance, oversight, and decision-making. Empirically, ACGD is measured as the proportion of female members relative to the total number of audit committee members. Female participation is expected to enhance critical thinking, ethical sensitivity, risk awareness, and monitoring effectiveness, thereby improving financial reporting quality, increasing transparency, reducing earnings management, and strengthening communication between auditors and management (Carter et al., 2019; Adams & Ferreira, 2019; Ntim et al., 2015; Torchia et al., 2022; Post & Byron, 2019; Raghunandan & Rama, 2016; Abdelaziz & Hussainey, 2022).

Empirical Review

Empirically, relevant literature relating to the study variables was reviewed based on findings from previous studies.

Audit Committee Independence and Financial Reporting Quality

Saif et al. (2024) used quantitative research methodologies to examine the effects on audit quality of the independence and efficacy of the audit committee. The sample is made up of 75 people who worked for the National Trading Company (NATCO) group of enterprises in Yemen between 2019 and 2023 in a variety of roles. A Google Form was used to gather the data, and the Statistical Package for the Social Sciences (SPSS) was used for analysis. The findings show that audit committee independence has a favorable effect on audit quality, and that audit committee effectiveness has a positive link with audit quality as well. Moreover, a robust audit committee framework is essential for financial reporting credibility, as evidenced by the strong positive association that was found between audit committee performance and independence. The results indicated that audit quality is positively impacted by the independence and effectiveness of the audit committee, with independence being more important. However, the study is limited to Yemen and the findings and recommendations cannot apply to the Nigeria context and this necessitated this study. More so, moderating variable is considered in this study. Also, the method of data analysis is different because this study will use STATA statistical tools to analysis the data which is different from the study reviewed.

Moses (2024) examined the impact of audit committee characteristics on the quality of financial reporting from firms that are listed on the Nigerian exchange. The study utilized an ex post facto research design and retrieved data from a cross-section

of 14 firms' annual reports spanning the years 2007 to 2022. It used factors related to audit committee attributes, including board size, independence, size, and meetings, and capital adequacy was used to gauge the quality of financial reporting. Panel regression analysis was used to analyze the data, and the results showed that audit committee independence and size had a positive but negligible impact on the capital adequacy of listed firms in Nigeria, while audit committee meetings and board size had a negative but negligible impact. The study is limited to only 14 firms, covering a period of 2007 -2022. While, this study will be focusing manufacturing firms in Nigeria for a period of 2010 to 2024.

Aminu (2024) investigated how the independence and experience of the audit committee affect the quality of financial reporting by Nigerian listed commercial banks. The study's ten (10) year timeframe was from 2013 to 2022. Using a sample of eight (8) commercial banks from the fourteen (14) quoted banks on the Nigerian Exchange, the study employed panel data research design methodologies. By measuring the variables, the study's data were gathered from the annual accounts of the banks that were sampled. According to the study, financial reporting quality (FRQ) is significantly impacted negatively by audit committee independence (ACIND). The study is limited to only 8 commercial banks for 10 years, while this study will be focusing on manufacturing firms in Nigeria over a period of 15 years.

Mohammad and Oladele (2024) investigated the relationship between audit committees and high-quality financial reporting of listed industrial products companies in Nigeria. This is an unresolved issue in the field of financial management. The Nigerian exchange website provided the annual report for the study, which employed 11 companies as a sample size. The study's data spans the years 2011–2022. The results of the study indicate that DACC and ACS, ACI, and ACM have weakly positive associations. DACC and ACFE have a marginally unfavorable association. These findings imply that, although the correlations are weak, audit committee size, independence, and meetings may be related to discretionary accruals. From the reviewed study, it was revealed that the research is limited to the industrial firms over 12 years. However, this study was conducted on listed manufacturing firms covering the period 2009 to 2023.

Idris et al. (2024) investigated how the qualities of audit committees affect the quality of financial reporting from Nigerian consumer goods companies that are listed. The study's data came from the 2009–2022 annual reports of the sixteen consumer products companies that made up the sample. Following the Hausman and Breusch-Pagan tests, the data was subjected to fixed effect regression analysis. The study discovered that the level of released financial information of listed Nigerian consumer goods companies is significantly raised by the independence (ACI), size (ACS), and shareholder involvement (SIAC) of audit committees. The study came to the conclusion that the audit committee has an impact on the quality of the financial reports of Nigerian consumer goods businesses that are listed. It was discovered from the analyzed study that the research is restricted to consumer products companies between 2009 and 2022. Nonetheless, this study will be carried out on Nigerian listed manufacturing companies between 2009 and 2024 in order to close the research gap.

Ajape et al. (2023) examined how audit committees affected the financial reporting quality. In this cross-sectional study, partial least square (PLS) analysis was used to collect quantitative data from secondary sources. A total of sixty companies were included in the sample, 20 financial companies, 20 industrial companies, and 20 service companies). Muscat Stock Exchange (MSX) Oman is the primary source of sample firms. According to the results, the audit committee independence was positively

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impacted by the standard of financial reporting everywhere it was. The results indicate that the quality of financial reports is significantly influenced by the audit committee independence. This finding suggests that financial reports are of greater quality when there is more audit committee's independence. The study is limited to foreign context. The study is limited to a foreign context and the findings and recommendations may not be applicable to the Nigeria context. In addition, the periodical gap of 2023, though this study will fill the time gap by studying the period to 2024. More so, a moderating variable will be considered in the study.

Maranjory and Tajani (2022) examined the effect of audit committee independence on financial reporting quality of firms listed on the Tehran Stock Exchange (TSE). A unique data for a period of 5-years between 2016 and 2020 through content analysis of the financial statements. A multivariate linear regression model with panel data was used for the data analysis with the support of EViews 8 software. Hausman test is used to select between fixed and random effects models and the test found random effect suitable for the study. The findings of the study revealed that audit committee independence has a negative and significant effect on financial reporting quality. However, the study is limited to Tehran and the findings and recommendations cannot apply to the Nigeria context and this necessitated this study. More so, moderating variable is considered in this study in order to ally the divergent and mixed findings from the study.

Ovbiebo (2021) assessed the effect of audit committee independence on financial reporting quality among Nigeria-listed insurance companies. Twenty (20) quoted insurance companies in the Nigerian Exchange as of 31st December 2020 and the sample of five (5) listed Insurance companies were obtained from their respective annual reports covering the period 2016 to 2020. Convenient sampling technique was used in the study. A secondary source of panel data was collected and content analysis was employed in the study. The panel Least Square (PLS) regression estimation techniques were used to analyze the data. The study found that audit committee independence has a positive and insignificant effect financial reporting quality in the insurance sub-sector of the Nigerian economy. The study is limited to only 5 insurance companies for 5 years, while this study will be focusing on manufacturing firms in Nigeria over 15 years.

Mobarak et al. (2021) examined the effect of audit committee independence on financial reporting quality of non-financial Saudi-listed companies between the period 2015 and 2018. From the 125 listed companies, a sample of 99 companies from 16 sectors was selected due to incomplete or ambiguous data. Poisson regression analysis was used to analyze the extracted panel data. The findings of the study established that audit committee independence has a negative and insignificant effect on financial reporting quality. Based on the reviewed study, the research is limited to a foreign context for a period of 4 years. This, however, has a limited year to generalize or conclude the quality report of a company. In addition, the findings of the study cannot be generalized to Nigerian context due to diversity in policy and regulation among others. This, therefore, necessitated this study.

Adedeji et al. (2020) empirically examined the impact of audit committee independence on the quality of financial reporting among companies listed on the Nigerian exchange as of December 31, 2018. The study utilized secondary data obtained from annual reports of the sampled firms. Employing panel data analysis through the Ordinary Least Squares (OLS) regression method, the research assessed the relationship between audit committee independence and financial reporting quality. The findings

indicated that audit committee independence has a significant positive influence on the quality of financial reporting in Nigerian listed companies. However, the reviewed study was limited in scope as it did not specify the firms involved and was confined to a single financial year (2018). To address these limitations, the current study will focus specifically manufacturing firms in Nigeria and extend the study period up to 2024.

Haruna and Muktar (2020) investigated the effect of audit committees on the financial reporting quality of Nigerian deposit money banks. The study utilized cross-sectional data spanning six years (2013–2018), drawn from the financial statements of five listed deposit money banks and the Nigerian Exchange Factbooks. The Modified Jones Model (1991) was employed to assess the quality of financial reporting. The primary objective of the study was to statistically analyze the relationship between audit committee characteristics and the quality of financial reporting within the Nigerian banking sector. The findings revealed that both the independence and financial expertise of the audit committee significantly enhance the accuracy and reliability of financial reports among the sampled institutions. In fact, the study comes to the conclusion that the financial knowledge of audit committees has little bearing on the caliber of financial reporting from Nigerian listed deposit money institutions. According to the study, the quality of financial reporting is significantly impacted by the independent audit committee members. Data gaps and the study's concentration on listed deposit money institutions, which concluded in 2018, are its drawbacks.

Audit Committee Gender Diversity and Financial Reporting Quality

Bello and Salami (2024) assessed audit committee gender diversity and its effect on financial reporting quality among listed industrial firms in West Africa. Using secondary data from 48 firms between 2011 and 2021, the study employed panel regression analysis. The findings indicate that gender-diverse audit committees are positively associated with improved financial disclosure and reduced earnings management. The study is limited by its concentration on industrial firms alone, leaving room for further sectoral comparisons.

Babatunde et al. (2024) examined the effect of audit committee characteristics on the financial reporting quality of quoted consumer goods manufacturing companies in Sub-Sahara Africa, with audit committee gender diversity as a moderating variable. The research employs a longitudinal approach covering ten years (2011–2020) and uses panel least squares regression to analyze data from 53 firms across Nigeria, Kenya, and South Africa. The findings indicate that gender-diverse audit committees significantly moderate the relationship between audit characteristics and reporting quality. The reviewed study focuses on consumer goods companies within the limited period of (2011–2020). This study will fill the gap by covering the listed manufacturing firms in Nigeria for a period of (2010–2024).

Oladeji and Usman (2023) examined audit committee gender diversity as a determinant of financial reporting quality in listed Nigerian firms. Using a sample of 35 firms from 2013 to 2021 and analysing with panel least squares regression, the findings shows that gender diversity enhances the independence and scrutiny functions of audit committees, thereby improving financial reporting quality. The study, however, does not disaggregate results by firm size or industry, which could provide more nuanced insights.

Ibrahim and Okon (2023) assessed the impact of audit committee gender diversity on the reliability of financial reports in the Nigerian capital market. The research analysed panel data from 2010–2021, covering 50 listed firms, and applied robust standard error regression. The study found a positive and statistically significant

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relationship between the proportion of women on audit committees and financial reporting quality.

Ibe and Adetunji (2023) assessed the moderating role of audit committee gender diversity in the relationship between audit committee size and financial reporting quality among firms listed on the Nigerian Stock Exchange. Using data spanning 2012–2021 for 50 firms and applying robust fixed effect regression, the results revealed that gender diversity strengthens the positive relationship between audit committee size and reporting quality. However, the study does not account for external factors like economic policy changes that may influence the findings.

Musa and Okafor (2023) examined how audit committee gender diversity moderates the effect of audit committee meetings on the quality of financial reporting in Nigeria. The study used data from 38 consumer goods firms from 2011 to 2021 and applied random effects regression. The results indicate that more frequent audit committee meetings are significantly more effective in improving financial reporting quality when there is gender diversity. The study is limited by industry focus and calls for a wider sample across multiple sectors.

Danjuma and Salisu (2022) assessed the effect of audit committee attributes on financial reporting quality with gender diversity as a moderating variable in listed Nigerian firms. The research covered the period of 2010–2020 and employed panel data regression on 45 firms. The results showed that gender diversity insignificantly moderated the influence of audit committee diligence and expertise on financial reporting quality. However, the study did not disaggregate the moderating effect across industries, presenting a gap for sector-specific analysis.

Theoretical Review

This study adopts Stewardship Theory as it is most relevant to this study. Stewardship theory, introduced by Donaldson and Davis (1991), argues that corporate leaders, including audit committee members, are intrinsically motivated to act in the best interest of their organizations. Unlike agency theory, which assumes self-interest and the need for monitoring, stewardship theory emphasizes trust, ethical responsibility, and alignment between managerial and organizational goals (Davis et al., 1997; Hernandez, 2012). This theory is particularly relevant to audit committees as it suggests that members view their role as custodians of transparency and accountability, working proactively to ensure accurate financial reporting.

In relation to audit committee independence, stewardship theory emphasizes that independent members are entrusted with the responsibility to oversee management objectively and protect stakeholder interests. Recent studies (e.g., Alqatamin, 2022; Al-Sraheen & Alkhatib, 2023) indicate that audit committees composed of independent directors are more effective in monitoring management actions, detecting irregularities, and ensuring compliance with ethical and reporting standards. Within a stewardship framework, independence is not merely a formal requirement but a reflection of the committee's commitment to safeguarding organizational integrity, enhancing financial reporting quality, and maintaining stakeholders' trust in corporate disclosures.

3. Methodology

This study outlined the methodology that was employed to achieve its objectives. It explained the research design, the population and sample size, sources of secondary data, and the techniques of data analysis. The population consists of 46 manufacturing firms listed on the Nigerian Exchange (NGX) between 2010 and 2023, covering key subsectors such as agriculture, consumer products, healthcare, and

industrial goods. The research spans a 14-year period to capture comprehensive financial trends and patterns.

Listed manufacturing firms were selected due to their strategic role in Nigeria's economic development and because the sector has been frequently linked to large-scale, multifaceted earnings management, making it highly relevant for examining audit quality and financial reporting practices. This study used a sample of thirty-five (35) manufacturing companies listed on the Nigeria exchange as at December 31st 2023. A purposive sampling technique was adopted to select firms that met predefined criteria, including continuous listing status and availability of complete annual reports throughout the study period. Based on these criteria, a final sample of 35 firms was retained for analysis.

Table 1 presents the population definition and sample selection criteria of the study.

Table 1

Selection Criteria

Inclusion Criteria	No of Firms
Companies must be listed on Nigeria Exchange from 2010 to 2024	46
Companies with compliance status indicators issues within the period of study	11
Companies without issues of compliance status indicators	35

Source: Researcher's compilation (2025)

Model Specification

To examine moderating role of firm size on audit committee and financial reporting quality of listed manufacturing firms in Nigeria, the model of Alqatamin and Alqatamin (2024) was adapted and used in this study.

$$FRQ = \beta + \beta_1 AUDSIZE + \beta_2 AUDGEN + \beta_3 AUDMEE + \beta_4 AUDIND + \beta_5 AUDEDU + \beta_6 FSIZE + \beta_7 FLEV + \beta_8 FAGE + \beta_9 PROF + \beta_{10} FSECT + \beta_{11} BIG4 + \varepsilon \dots\dots\dots 1$$

The model was expanded to accommodate the moderation through addition and multiplication as; $Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 Z_{it} + \beta_3 X_{it} * Z_{it} + \mu_{it}$. Where, Y is the dependent variable, X the independent variables, Z the moderating variable, f(x) comprises of β_0 (constant) and a set of β_i 's which are the coefficient of the explanatory variables and ε is the random effect (assumed to have zero mean and independent across time period).

The modified regression model as specified below were developed from the adapted equation to test each hypothesis of the study.

$$FRQ_{it} = \beta_0 + \beta_1 ACI_{it} + \beta_2 ACGD_{it} + \mu_{it} \dots\dots\dots 2$$

$$FRQ_{it} = \beta_0 + \beta_1 ACI_{it} + \beta_2 ACGD_{it} + \beta_3 ACI_{it} * ACGD_{it} + \mu_{it} \dots\dots\dots 3$$

Where: FRQ = Financial Reporting Quality. ACI = Audit Committee Independence; ACGD = Audit committee gender diversity; β_0 = represent the intercept; β_1 -3= is the Coefficient of the independent variables i = represents the number of firms in the panel data, t = represents the time period of the panel data, μ_{it} = is the error term; n = number of financial accounting quality present.

Variables, Definition and Measurement

The variables for this study are depicted in table 2

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Table 2

Variables Definition, Measurements and Sources

Variables / Acronyms	Definition	Measurement	Sources
Financial Reporting Quality (FRQ)	FRQ is defined as the reliability and relevance of the financial statements for decision making.	Measured using qualitative characteristics via content analysis	Idris et al. (2024); Kothai (2005); Majiyebo et al. (2018)
Audit Committee Independence (ACI)	(ACI) is when members, mainly non-executive directors, are free from conflicts of interest, ensuring objective oversight of financial reporting and internal controls.	Proportion of independent non-executive members to total audit committee members	Nigerian Code of Corporate Governance (2018); Alfraih 5& Alanezi (2020); Bazhair (2022); Olowookere (2021)
Audit Committee Gender Diversity (ACGD)	Defined as the number of female members in the audit committee	Measured as the proportion of female members to total audit committee members	Saif et al. (2024)

Source: Field work, 2025

4. Results and Discussion

Table 3 presents the descriptive statistics for the variables used in this study. The variables considered in the study include audit committee independence, audit committee gender diversity, and financial reporting quality.

Table 3

Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
FRQ	490	.7347959	.0750982	.57	86
ACI	490	.0941586	.1258267	0	4
ACGD	490	1.040816	.7899984	0	2
ACGDACI	490	.090349	.1718227	0	6666

Source: STATA 13, 2025

Table 3 shows that the dependent variable, FRQ, has a mean of 73.48 percent with a standard deviation of 7.51 percent, indicating a moderate dispersion from the mean. This suggests that, on average, the financial reports of Nigerian manufacturing firms are of relatively high quality, though there remains room for improvement. The minimum and maximum values of 57 percent and 86 percent, respectively, indicate that while some firms maintain strong financial reporting standards, others lag behind.

Similarly, Table 3 shows that audit committee independence (ACI) has a mean of 9.42 percent with a standard deviation of 12.58 percent. This indicates that only a small proportion of audit committee members are independent, with considerable variability among firms. The minimum value of 0 shows that some firms have no independent members on their audit committee, while the maximum of 40 percent

suggests that even in the best-case scenario, independence is limited. This implies that many firms may need to strengthen audit committee independence to enhance objective oversight of financial reporting.

Furthermore, Table 3 reveals that audit committee gender diversity (ACGD) has a mean of 1.04 members, suggesting that, on average, audit committees include only one female member. The standard deviation of 0.79 indicates some variation across firms, while the minimum and maximum values of 0 and 2 confirm that some audit committees had no female members, whereas others had up to two women. This points to a generally low level of gender diversity in audit committees, which may limit diverse perspectives in governance and decision-making.

In addition, Table 3 presents the interaction term (ACGDACI), which represents the combined effect of gender diversity and audit committee independence on financial reporting quality. The mean value of 9.03 percent, with a standard deviation of 17.18 percent, indicates substantial variation across firms. The minimum value of 0 implies that some firms lack both independence and gender diversity in their audit committees, while the maximum value of 66.66 percent suggests that in a few firms, the combination of these two attributes may significantly strengthen oversight and improve financial reporting quality.

The implication of these findings is that, while some Nigerian manufacturing firms demonstrate high financial reporting quality, many still have audit committees lacking sufficient independence and gender diversity. Strengthening these attributes can enhance governance practices and improve the credibility and transparency of financial disclosures, particularly when gender diversity serves to moderate and potentially amplify the effectiveness of audit committee independence.

Correlation Analysis

The correlation matrix is used to determine the degree of correlation between independent variables and the dependent variable. It is also used to identify the relationship among the independent variables themselves and to determine if the variables have multicollinearity problem.

Table 4

Pairwise Correlation Matix

Variables	FRQ	ACI	ACGD	ACGDACI
FRQ	1.0000			
ACI	0.0673	1.0000		
	0.1370			
ACGD	-0.2491*	-0.0771	1.0000	
	0.0000	0.0880		
ACGDACI	-0.0632	0.6980*	0.3760*	1.0000
	0.1622	0.0000	0.0000	

Statistical significance at the 5 percent level ($p < 0.05$)

Source: STATA 13, 2025

Table 4 reveals the pairwise correlation matrix for the variables in this study. None of the variables are correlated above the threshold of 0.9, indicating that multicollinearity is not a concern and is unlikely to threaten the reliability of the regression results. The table shows that Financial Reporting Quality (FRQ) has a positive but insignificant relationship with Audit Committee Independence (ACI), with a coefficient of 0.0673 and a p-value of 0.1370. This suggests that although the presence of independent members on the audit committee may contribute to improved financial reporting quality, the relationship is not statistically significant.

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In contrast, FRQ exhibits a significant and negative relationship with Audit Committee Gender Diversity (ACGD), with a coefficient of -0.2491 and a p-value of 0.0000. This indicates that an increase in the number of female members on the audit committee is associated with a decrease in financial reporting quality. This unexpected finding may reflect contextual governance issues in Nigerian manufacturing firms or situations where the inclusion of women does not translate into meaningful decision-making influence.

Additionally, FRQ is negatively related to the interaction term (ACGDACI), with a coefficient of -0.0632 and a p-value of 0.1622, suggesting a weak and statistically insignificant moderating effect of gender diversity on the relationship between audit committee independence and financial reporting quality.

The correlation matrix also reveals inter-relationships among the independent variables. ACI is positively and significantly related to ACGDACI, with a coefficient of 0.6980 and a p-value of 0.0000, indicating that audit committees with higher independence are more likely to exhibit stronger combined effects with gender diversity.

Similarly, ACGD is positively and significantly related to ACGDACI, with a coefficient of 0.3760 and a p-value of 0.0000, suggesting that greater gender diversity is associated with higher interaction values. ACI and ACGD show a weak and insignificant negative relationship, with a coefficient of -0.0771 and a p-value of 0.0880, indicating that the presence of female members is not strongly associated with audit committee independence.

These findings highlight the complex dynamics among audit committee characteristics, suggesting that while independence is generally expected to enhance oversight, its interaction with gender diversity in the Nigerian context does not necessarily lead to improvements in financial reporting quality.

Post Estimated and Robustness Test

The robustness tests were conducted in this study to improve the validity of the statistical results. These include normality test, multi-collinearity test, Heteroscedasticity test and Hausman specification tests.

Normality Test

The Shapiro wilk (W) test is to check for the normality or otherwise of the data set in the study. Thus, the normal probability plot is provided, after some basic descriptive statistics and nine hypothesis tests. The common hypothesis is that the sample has been drawn at random from a normal distribution.

Table 5

Normality Test (Shapiro W' Test for Normal Data

Variable	Obs	W'	V'	Z	Prob>z
FRQ	490	0.97653	8.323	4.643	0.00001
ACI	490	0.98919	3.831	2.943	0.00163
ACGD	490	0.99997	0.010	-10.195	1.00000
ACGDACI	490	0.95260	16.808	6.182	0.00001

Source: STATA 13, 2025

From Table 5, the study does not have sufficient evidence to conclude that audit committee gender diversity (ACGD) is non-normally distributed because its p-value is greater than 0.05 ($p = 1.0000$). This means the null hypothesis cannot be rejected, and the variable ACGD is considered to be normally distributed. On the other hand, the p-values for Financial Reporting Quality (FRQ) ($p = 0.00001$), Audit Committee

Independence (ACI) ($p = 0.00163$), and the interaction term ACGDACI ($p = 0.00001$) are all less than 0.05. Therefore, the null hypothesis for these variables is rejected, indicating that there is sufficient evidence to conclude that FRQ, ACI, and ACGDACI are not normally distributed.

The study adopted a panel data structure, where observations are repeated across the sampled listed manufacturing firms over several years. In panel datasets, data normality is considered a sufficient condition but not a necessary condition for the validity of the model (Abu et al., 2018). This implies that, despite the non-normality of some variables, the overall model remains valid. Nevertheless, further diagnostic tests will be conducted to address the issue of non-normality by selecting an appropriate estimation technique for the study.

Specification Test

The specification test such as the heteroscedasticity test, multicollinearity test and Hausman tests were conducted in order to select the fitted and best model for the study.

Table 6

Specification/Diagnostics Test

Variable	Statistics	P-Values
Hetest: Chi ²	5.91	0.0151
Mean VIF:	2.43	0.95260

Sources: STATA 13, 2025

The results in Table 6 revealed that the model exhibits evidence of heteroskedasticity in the panel, as indicated by the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity with a Chi² value of 5.91 and a p-value of 0.0151, which is significant at the 5% level. This suggests the presence of non-constant variance in the error terms across panels, violating the assumption of homoskedasticity and indicating that robust or corrected estimation methods should be employed.

Additionally, the model indicates the absence of severe multicollinearity among the explanatory variables. This is supported by a Mean Variance Inflation Factor (VIF) of 2.43, which is well below the commonly accepted threshold of 10. A VIF below 10 implies that multicollinearity is not a serious issue, enhancing the reliability of the estimated coefficients.

Although the Hausman test is often used to choose between fixed and random effects, it is not strictly necessary in this study due to the presence of heteroskedasticity and the adoption of Generalized Least Squares (GLS) or Feasible GLS (FGLS). GLS is appropriate in this context as it produces efficient and consistent estimates even in the presence of heteroskedastic error terms, ensuring that the model results are reliable despite the violation of classical assumptions. Therefore, GLS is reported in Table 7 below;

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Table 7

Generalised Least Squared (GLS)

Variables	Coefficient value	P-value
ACI	0.0255881	0.545
ACGD	-0.0200022	0.000
ACGDACI	0.0050248	0.879
Constant	0.757246	0.000
Prob > chi2	= 0.0000	
Wald chi2(3)	= 24.42	

Source: STATA 13, 2025

Table 7 reveals that the overall GLS model is statistically significant, as indicated by the Wald chi-square value of 24.42 and a p-value of $0.000 < 0.05$, confirming the joint significance of the independent variables in explaining variations in financial reporting quality (FRQ) among the sampled firms. The significance of the model indicates its reliability for analysis.

The regression results show that Audit Committee Independence (ACI) has a positive but statistically insignificant coefficient of 0.0256 ($p = 0.545 > 0.05$). This suggests that greater independence within the audit committee may slightly improve financial reporting quality, but the effect is not statistically significant in this study. This finding aligns with the results of Soyemi et al. (2019) and Aifuwa et al. (2020), who assert that independent audit committees enhance oversight and reporting quality. Conversely, it contradicts the findings of Nouraldeen et al. (2021) and Olatunde (2021), who found that independence alone does not significantly affect financial reporting quality in their samples.

On the other hand, audit committee gender diversity (ACGD) has a negative and statistically significant coefficient of -0.0200 ($p = 0.000 < 0.05$). This implies that higher female representation on audit committees is associated with a slight decrease in FRQ within this sample. The result supports Danjuma and Salisu (2022) and Gulzar & Haque (2023), which suggest that gender diversity may not always translate into measurable improvements in reporting quality. However, it contrasts with Oladeji & Usman (2023) and Ibrahim & Okon (2023), who reported positive effects of gender diversity on financial reporting quality.

Interestingly, the interaction term ACGDACI, representing the combined influence of gender diversity and audit committee independence, shows a positive but statistically insignificant coefficient of 0.0050 ($p = 0.879 > 0.05$). This indicates that while the interaction may slightly enhance FRQ, the effect is not statistically significant. The finding echoes Danjuma and Salisu (2022), who noted that complex interactions between governance mechanisms may yield subtle effects, yet it contrasts with Oladeji & Usman (2023) and Ibrahim & Okon (2023), who found a significant combined effect of committee characteristics on reporting quality. The constant term has a value of 0.7572 with a p-value of 0.000, indicating that when all explanatory variables are held constant, the baseline level of financial reporting quality remains significantly positive.

5. Conclusion and Recommendations

This study concludes that audit committee independence (ACI) has a positive but statistically insignificant effect on financial reporting quality (FRQ) among listed Nigerian manufacturing firms. While independent members can provide objective oversight, their mere presence without active engagement or complementary expertise is insufficient to significantly enhance reporting quality.

Audit committee gender diversity (ACGD) was found to have a negative and statistically significant effect on FRQ, suggesting that female representation on audit committees may be tokenistic or lack the empowerment to influence financial reporting decisions meaningfully. Consequently, the effect of gender diversity on FRQ remains inconclusive without mechanisms to strengthen participation and decision-making capacity.

The interaction between gender diversity and independence (ACGDACI) is positive but statistically insignificant, indicating that combining these attributes does not yield a notable complementary benefit for financial reporting quality. This may reflect coordination challenges, overlapping responsibilities, or limited synergy between independence and gender representation.

Based on these findings and in line with the study objectives and hypotheses, the following recommendations are made:

- (i) **Audit Committee Independence:** Given that audit committee independence shows no significant effect on financial reporting quality, firms should move beyond nominal compliance by ensuring that independent members possess the requisite authority and are actively involved in financial oversight processes, particularly in reviewing financial statements and internal control systems.
- (ii) **Audit Committee Gender Diversity:** Since audit committee gender diversity exhibits a significant negative effect on financial reporting quality, firms should avoid symbolic appointments and instead ensure that female audit committee members are adequately empowered, professionally competent, and fully integrated into committee decision-making to enable meaningful contributions to financial reporting oversight.

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