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Audit committee characterization: Its role in enhancing financial statement quality

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ABSTRACT

The study examined the relationship between audit committee characteristics and discretionary accruals as a measure of financial statement quality in industrial goods companies in Nigeria. Using an ex post facto research design, secondary data were collected from the financial reports and corporate governance disclosures of nine selected firms from 2019 to 2023, resulting in 45 firm-year observations. The study employed the modified Jones model to estimate discretionary accruals and applied panel least squares regression analysis to assess the relationship between audit committee size, meeting frequency, and independence with earnings management. The findings revealed that audit committee size had no significant relationship with discretionary accruals ($\beta = 2.24$, $p = 0.9471$), indicating that an increase in the number of committee members did not influence earnings management. However, audit committee meeting frequency ($\beta = 8.86$, $p = 0.0475$) and independence ($\beta = 14.46$, $p = 0.0384$) showed significant positive relationships with discretionary accruals, suggesting that frequent meetings and greater independence were associated with increased earnings management rather than improved financial oversight. The study concluded that while audit committees are critical governance mechanisms, their effectiveness in curbing earnings management remains questionable. These results suggest that regulatory bodies and corporate boards should focus on enhancing the effectiveness of audit committees by ensuring that independent members are truly objective and that committee meetings are more impactful.

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1. INTRODUCTION

Financial reporting is an essential instrument for evaluating the health and success of businesses in the corporate sector. Financial statements are essential for stakeholders, such as investors, regulators, and the public at large, to make educated decisions. However, administrative discretion frequently leaves the dependability and quality of these reports unchecked, raising concerns about potential deception. Concerns about profit manipulation and financial misstatements are increasingly scrutinizing corporate governance frameworks (Healy & Wahlen, 1999). The audit committee is one such institution that is vital in monitoring financial reporting. Financial statements should accurately reflect a company's financial situation, and the audit committee's job is to make sure of that (Abbott et al., 2004; Ogoun & Perelayefa, 2020). Compliance with accounting standards, evaluation of internal controls, and oversight of financial disclosures are all under its purview. In spite of these obligations, many companies nonetheless engage in earnings management and financial misrepresentation. One common metric for earnings management is discretionary accruals, which show how managers have chosen to disclose their company's finances (Klein, 2002). Depending on their goals, companies might use these accruals to boost or lower their profitability. Several factors, including an audit committee's size, influence its effectiveness in preventing earnings management. In general, a bigger audit committee is thought to have more knowledgeable members, better tools for monitoring, and a more thorough process for reviewing financial reports (Tonye et al., 2023). But inefficiency and a lack of effectiveness might result from a committee that is too big. Research on corporate governance has not yet resolved the dispute over whether a bigger audit committee leads to better financial reporting or adds needless red tape (Bedard et al., 2004). The audit committee's meeting frequency is another important characteristic. Members are able to keep themselves informed on financial reporting concerns and promptly rectify any anomalies by attending frequent meetings. Vafeas (2005) found that audit committees with more regular meetings were better able to spot and avoid earnings manipulation. Meetings are vital, but how often they occur and the quality of the talks and choices that come out of them are more crucial to their success (Karamanou & Vafeas, 2005).

Another important factor in the efficiency of an audit committee is its independence. Financial openness and the possibility of challenging dubious accounting procedures are both increased in an independent audit committee that is not beholden to management (Ogoun & Perelayefa, 2020). Members of the audit committee may not be able to offer objective supervision if they have close relationships with corporate management. To improve the trustworthiness of financial statements, regulatory agencies in different countries have stressed the need for an independent audit committee (Felo et al., 2003). The structure and functions of audit committees are outlined in corporate governance frameworks in Nigeria, including the Companies and Allied Matters Act (CAMA) and the Nigerian Code of Corporate Governance (SEC Nigeria, 2020). Concerns over the quality of financial reporting continue, especially in the industrial products industry, notwithstanding these requirements. Earnings management may be more appealing to companies in this industry because of the specific financial difficulties they confront. We cannot overstate the significance of audit committee characteristics in relation to discretionary accruals in this industry. Across sectors and geographies, several research studies have investigated the link between audit committee traits and earnings management. Findings vary by industry, but some research suggests that robust audit committees cut down on discretionary accruals (Klein, 2002; Okoro & Ihenyen, 2020). This finding highlights the importance of conducting further empirical research, especially in Nigeria's industrial products industry. The efficiency of the country's corporate governance systems may be better understood by looking at how the audit committee helped reduce profit manipulation in this industry. The increasing number of people worried about financial misreporting makes it all the more important to examine the relationship between audit committee qualities and discretionary accruals in Nigerian industrial products businesses. Xie et al. (2003) aimed to add to the corpus of knowledge on financial reporting quality and corporate governance by concentrating on audit committee size, meeting frequency, and independence. Policymakers, business leaders, and regulators may all benefit from the results if they use them to enhance governance processes.

1.1 Problem statement

Ensuring business openness, improving decision-making for stakeholders, and retaining investor trust all depend on financial statement quality. Earnings management strategies, particularly discretionary accruals, seriously jeopardise the credibility of financial reporting. Managers frequently manipulate earnings to satisfy financial objectives, entice investors, or avoid regulatory scrutiny, according to studies. Regulators and proponents of good corporate governance are worried that monitoring institutions, particularly the audit committees, are not sufficiently addressing these abuses. Financial misrepresentations and profit management continue to be problems in Nigeria's business sector, even though legislative frameworks have been put in place to improve corporate governance. The function of audit committees in improving the accuracy of financial reports has been the subject of earlier studies. According to Klein (2002), companies with independent and well-structured audit committees tend to manage profits more effectively.

Bedard et al. (2004) also found that audit committees with active and knowledgeable members helped lower aggressive discretionary accruals. However, these studies have mostly focused on developed economies, where corporate governance systems are more evolved. The extent to which these findings apply to emerging markets like Nigeria, with differing regulatory regimes and business structures, remains unknown. Several researchers have also investigated the unique qualities of audit committees that impact financial statement quality. Xie et al. (2003) found that bigger committees with diversified experience enhance the effectiveness of audit committees in identifying financial misstatements. On the other hand, some research has found that committees with too many members might reduce their ability to effectively oversee operations due to inefficiency in decision-making (Ogoun & Owota, 2016). In addition, studies conducted by Vafeas (2005) show that more frequent audit committee meetings lead to improved financial reporting. But if the talks are poor, more meetings won't help. Further empirical inquiry is necessary, especially within Nigeria's business environment, in light of these contradictory results. Audit committees are required to be set up to improve the honesty of financial reports in the Nigerian setting as a result of corporate governance laws, including CAMA and the Nigerian Code of Corporate Governance (SEC Nigeria, 2020). High-profile corporate scandals and financial misstatements have cast doubt on the efficiency of audit committees in Nigerian corporations. The industrial products sector is important to Nigeria's economy, but it is not immune to these issues. There has been considerable theoretical work on Nigerian corporate governance, but much less empirical study on how audit committee traits affect earnings management in this industry.

Furthermore, audit committee characteristics have not been the primary emphasis of previous research in Nigeria, which has mostly concentrated on corporate governance processes in general. An example would be the fact that audit committee size, independence, and meeting frequency had little impact on discretionary accruals, even though Uwuigbe et al. (2014) investigated corporate governance and earnings management. In a similar vein, Emmanuel (2022) disregarded the audit committee's function as an internal control tool in favour of examining auditor quality and earnings management. These gaps show the need for a more targeted research project to explore how the characteristics of audit committees relate to the accuracy of financial statements in Nigeria's industrial products sector. To fill this knowledge vacuum, this study calculates the effect of audit committee size, meeting frequency, and independence on discretionary accruals, a quality indicator of financial statements.

Hypotheses:

H_{01}: Audit committee size has no significant relationship with discretionary accruals of industrial goods companies in Nigeria.

H_{02}: Audit committee meetings have no significant relationship with discretionary accruals of industrial goods companies in Nigeria.

H_{03}: Audit committee independence has no significant relationship with discretionary accruals of industrial goods companies in Nigeria.

2. LITERATURE REVIEW

2.1 Audit Committee

An audit committee, an essential part of corporate governance, oversees financial reporting, internal controls, and the audit process. Management, outside auditors, and the board of directors all use it to ensure financial transparency and accountability (Beasley, 1996). Financial misstatements, fraud, and profit manipulation may damage a company's reputation and destroy investor trust; a successful audit committee is vital in avoiding these things from happening (Abbott et al., 2004). Audit committees play a crucial role in maintaining the integrity and compliance of financial statements due to the increasing complexity of financial operations. While every company's audit committee is unique in form and makeup, best practices in corporate governance indicate that they should have at least one independent, non-executive director with strong financial knowledge (Klein, 2002). The committee's ability to offer objective scrutiny free from management's influence depends on its independence. Concerning the necessity of independent audit committees to improve the integrity of financial reporting, regulatory frameworks like the US Sarbanes-Oxley Act of 2002 and the Nigerian Code of Corporate Governance stress this point (SEC Nigeria, 2020).

The credibility of financial statements may be improved with the help of an audit committee that is both well-organised and capable of checking the auditors' work and management's accounting decisions. The oversight of disclosure and financial reporting processes is a fundamental responsibility of an audit committee. Prior to their dissemination to stakeholders, the committee must verify that the financial statements adhere to all applicable laws and accounting standards (DeFond & Jiambalvo, 1991). As a result of audit committees' diligent examination of financial reports, investors are better able to have faith in these entities (Bedard et al., 2004). To further evaluate the efficacy of risk management and internal controls, audit committees work in tandem with both internal and external auditors.

Meeting frequency and activity level are two additional essential aspects of an audit committee's performance. According to research, audit committees that have regular meetings are more likely to be able to identify and stop profit management strategies (Vafeas, 2005). Holding regular meetings enables members to remain informed about financial concerns, tackle new risks as they arise, and have fruitful conversations with auditors. It is not enough for meetings to take place; what really matters is the calibre of the discussions and choices that take place. (Karamanou & Vafeas, 2005). Improving the quality of financial reports requires holding effective meetings that stick to important financial topics. It would be remiss to minimise the importance of an independent audit committee in good company governance. More often than not, independent audit committees will demand ethical reporting methods and question management's financial judgements (Beasley, 1996). Members of the audit committee risk losing their impartiality and being unable to provide adequate monitoring when they have strong relationships with corporate management (Felo et al., 2003). Independent directors with experience in accounting, finance, or corporate governance are often required by regulatory agencies to make up the bulk of audit committees to improve corporate governance. To prevent financial falsification and encourage open financial reporting, an independent audit committee is essential.

2.2 Financial Statement Quality

Stakeholders such as creditors, investors, and regulators use the term "financial statement quality" to discuss the usefulness of financial reports for decision-making. Without prejudice or manipulation, high-quality financial statements show a company's financial situation and performance accurately. If these financial statements are to be consistent and comparable across companies and industries, they must follow either IFRS or GAAP or internationally recognised accounting rules. Investor trust and capital market information asymmetry are both improved by high-quality financial statements. Dependability is an attribute of high-quality financial statements; the term indicates that there are no major errors or omissions and that the numbers shown are accurate reflections of the company's financial health. Accounting estimation accuracy, internal control efficacy, and external auditor oversight all play a role in reliability. Managers who engage in opportunistic profit-taking or when internal controls are inadequate diminish the credibility of financial statements (Healy & Wahlen, 1999). Consequently, an independent audit committee and other robust corporate governance processes are vital for maintaining the integrity of financial reporting. Relevance, or the use of financial data for making decisions, is another important aspect of high-quality financial statements. According to Francis et al. (2004), consumers may evaluate a company's performance and future prospects with the use of relevant financial documents, which offer both predictive and time-sensitive information. Financial statements are used by creditors to determine whether a firm can pay its debts and by investors to make investment choices. Stakeholders experience more uncertainty and less helpful financial information due to delays or poor predictive value (Ball & Shivakumar, 2005).

The quality of profits is a key component of financial statement quality, as it shows how well a company's reported earnings represent its actual economic performance. High-quality earnings come from actual company activities and are sustainable, rather than relying on accounting tricks like income smoothing or discretionary accruals (Richardson et al., 2005). Managers can compromise the integrity of financial statements by engaging in earnings management to achieve financial objectives or influence stock prices. Audit committees play a crucial role in preventing earnings manipulation and monitoring financial reporting methods. Users are able to evaluate a company's financial status in comparison to its peers, which improves financial statement quality. According to Bushman and Smith (2001), accurate and complete financial statements reveal all pertinent information, such as risks, uncertainties, and accounting procedures. The capacity to compare financial reports across multiple companies and times is crucial for regulators and investors to make educated decisions (Barth et al., 2008). Organisations like the International Accounting Standards Board (IASB) and the Financial Reporting Council (FRC) create rules to make financial reports more transparent and easier to compare (Akram et al., 2025).

2.3 Stakeholder Theory

Stakeholder theory, which states that companies have duties beyond merely increasing shareholder wealth, provides a useful framework for understanding the audit committee's function and the integrity of financial statements. The idea that businesses should take into account the needs of everyone from investors to workers to consumers to government agencies is known as "stakeholder theory", and it was first put out by Freeman (1984). These stakeholders depend on accurate financial reporting for decision-making; therefore, it is crucial to have high-quality financial accounts to show them that you are transparent and accountable. By avoiding earnings manipulation and financial deception, audit committees, as an integral aspect of corporate governance, guarantee that financial reports satisfy the expectations of all stakeholders (Donaldson & Preston, 1995). Stakeholder theory's guiding principle of corporate responsibility is that, to keep their stakeholders' confidence, businesses must behave responsibly and ethically (Freeman et al., 2018). To convey the financial health and strategic direction of a business, financial statements are an essential instrument. Investors, creditors, and regulatory agencies are the ones most affected by the lack of clarity in financial reporting that results from lax audit supervision (Mitchell et al., 1997). An efficient audit committee can mitigate these risks by monitoring financial reporting and ensuring compliance with financial standards.

Stakeholder trust and confidence is another important part of stakeholder theory, and it is greatly affected by how trustworthy and accurate financial disclosures are. Earnings management and other forms of false or incompetent financial reporting destroy a company's credibility and undermine trust among stakeholders (Clarkson, 1995). Healy and Palepu (2003) cite corporate disasters like Enron and WorldCom as examples of how ineffective audit committees and lax financial supervision may cause giant losses for stakeholders and shareholders. By checking that the reports are honest and follow all applicable regulations, an independent audit committee improves the reliability of financial statements. Maintaining high-quality financial statements is an important responsibility of governance systems and regulatory compliance, according to stakeholder theory. Companies are required to establish independent audit committees and maintain high standards of financial reporting (Jensen, 2001), according to regulations enforced by organisations like the Financial Reporting Council (FRC) and the Securities and Exchange Commission (SEC). By increasing openness and decreasing financial misstatements, these governance techniques safeguard stakeholder interests. To prevent financial misbehaviour and build confidence with stakeholders over the long term, the audit committee is vital in making sure that companies follow these rules (Hillman & Keim, 2001). According to stakeholder theory, companies that emphasise ethical financial reporting have a better chance of being sustainable in the long run. Accurate and complete financial statements positively impact investor trust, socially responsible investment, and company reputation (Grey et al., 1995). By checking that companies' financial reports are in line with ethical standards and stakeholder expectations, audit committees help make sure that sustainability is maintained. Companies may improve their long-term growth and success by focusing on the quality of their financial statements and keeping solid connections with important stakeholders.

2.4 Prior Studies

Alzoubi (2014) looked at how the qualities of audit committees affected the reliability of financial reports from Jordanian companies. Regarding earnings management, the research looked at audit committee independence, size, financial knowledge, and meeting frequency. Applying multiple regression analysis, the study used secondary data from 86 businesses listed on the Amman Stock Exchange between 2006 and 2013. Results indicated that audit committees with both independence and financial expertise greatly cut down on earnings management, which improved the quality of financial reports. Firms with robust audit committees were more likely to comply with rules and report ethically, according to the study. Gul et al. (2015) looked at manufacturing companies in Malaysia to see how audit quality relates to earnings management. The research used a panel regression model to examine information from 120 companies that were listed on Bursa Malaysia during 2008–2014. The results indicated that companies audited by the Big Four firms had better audit quality, as evidenced by fewer earnings manipulations. Additionally, the study found that companies with longer relationships with their auditors tended to have less earnings management, meaning their financial reports were of higher quality. To maintain auditor independence, the report suggested using regulatory measures to mandate auditor rotation practices.

Garcia et al. (2016) explored how audit committee independence affected firm performance across European markets. The study examined data from 200 publicly listed firms in France, Germany, and the UK over a 10-year period (2005–2015) using a dynamic panel data approach. The findings indicated that firms with fully independent audit committees reported higher return on assets (ROA) and return on equity (ROE), suggesting that independence enhanced financial transparency and investor confidence. The study reinforced the role of strong corporate governance in maintaining financial integrity. DeFond and Zhang (2017) analyzed the impact of mandatory auditor rotation on financial restatements in U.S. publicly traded firms. Using financial reports from 300 firms between 2005 and 2016, the study employed event study methodology. Results demonstrated that firms that changed auditors within five-year intervals experienced fewer financial restatements, indicating that periodic auditor rotation improved audit objectivity and reduced audit failures. However, frequent auditor changes led to increased costs and disrupted auditor-client relationships, presenting a trade-off between independence and efficiency. Okolie and Agboma (2018) examined the effectiveness of external auditors in detecting financial fraud within selected African markets, including Nigeria, Kenya, and South Africa. The study surveyed 150 audit practitioners and regulatory officials, utilizing structural equation modeling (SEM) for analysis. Findings indicated that external auditors played a vital role in fraud prevention, particularly in firms with weak internal controls. The study recommended that stricter audit quality standards and regulatory oversight be enforced to enhance transparency and deter fraudulent financial practices.

Xie et al. (2019) investigated how audit committee meeting frequency influenced earnings quality in Chinese publicly traded firms. Analyzing financial data from 220 firms between 2012 and 2018, the study applied a fixed-effects regression model. Findings showed that firms with more frequent audit committee meetings had higher earnings quality due to improved oversight and risk assessment. The study suggested mandating a minimum number of audit committee meetings to reinforce financial accountability. Ogoun and Perelayefa (2020) looked at how corporate governance affects the quality of audits for companies. The impetus for this research stems from the belief that issuers of financial reports are more likely to have faith in them when high-quality audit reports are prepared. The research covered the years 2008–2015 and included 71 non-financial companies. A dummy variable of "1" and "0" was used to determine audit quality. If the business used a big four auditor, the value would be 1, and otherwise, it would be 0. Using the percentage of independent, non-executive directors as a proxy for board independence, corporate governance was evaluated. Binary regression analysis was used to examine the gathered data. The results show that audit quality is inversely related to board independence. Finding the right combination of skills on the board is crucial, according to the study. According to the research, the current board composition should be maintained and further strengthened with the addition of non-executive directors. Patel et al. (2021) examined corporate governance mechanisms and auditor independence in Indian firms. Using financial data from 150 firms between 2011 and 2020, the study found that strong corporate governance frameworks, including independent audit committees and board diversity, significantly enhanced auditor independence. The study recommended reforms to strengthen governance mechanisms, ensuring audit integrity and investor trust.

3. METHODOLOGY

The study employed an ex post facto research design. Secondary data are collected from the annual financial reports and corporate governance disclosures of selected firms spanning from 2019 to 2023. The study focuses on three key audit committee characteristics: size, meeting frequency, and independence, assessing their relationship with discretionary accruals, which serve as a proxy for financial statement quality. The modified Jones model is utilized to estimate discretionary accruals, ensuring a reliable measure of earnings management. A multiple regression analysis was conducted to determine the statistical significance and direction of the relationships between the independent and dependent variables. A panel data approach is adopted to account for firm-specific effects and variations over time, enhancing the robustness of the analysis. The study ensures a representative sample by selecting firms based on data completeness and availability.

The regression model is specified as follows:

$DA = \beta_0 + \beta_1 ACS + \beta_2 ACM + \beta_3 ACI + \epsilon$

Where:

DA = Discretionary accruals for firm

ACS = Audit committee size for firm

ACM = Audit committee meeting frequency for firm
ACI= Audit committee independence for firm
β_0 = Intercept
$\beta_1,\beta_2,\beta_3,\beta_4,\beta_5$= Coefficients of the independent and control variables
ϵ = Error term

4. RESULTS AND RECOMMENDATIONS

Table 1. Descriptive Statistics

	DA	AS	AM	AI
Mean	75.76378	5.000000	3.355556	2.666667
Median	22.27000	5.000000	4.000000	3.000000
Maximum	342.0000	6.000000	5.000000	4.000000
Minimum	0.740000	3.000000	2.000000	1.000000
Std. Dev.	103.8960	0.825723	1.003529	0.768706
Skewness	1.335766	-1.224745	-0.484139	-0.877058
Kurtosis	3.348175	4.500000	1.603064	3.328402
Jarque-Bera	13.60933	15.46875	5.416859	5.971446
Probability	0.001109	0.000438	0.066641	0.050503
Sum	3409.370	225.0000	151.0000	120.0000
Sum Sq. Dev.	474952.6	30.00000	44.31111	26.00000
Observations	45	45	45	45

Source: EViews 9.0

The descriptive statistics provide insights into the characteristics of discretionary accruals (DA) and audit committee attributes (AS, AM, AI) for the sampled firms. The mean discretionary accruals (DA) is 75.76, indicating a high level of earnings management, with a median of 22.27, suggesting that the data distribution is skewed by some firms with exceptionally high DA values (as reflected in the maximum of 342.00). The standard deviation of 103.90 further supports this high variation. The positive skewness (1.33) and a kurtosis of 3.35 suggest that DA is right-skewed and slightly leptokurtic. The Jarque-Bera probability of 0.0011 confirms that DA is not normally distributed. For audit committee characteristics, the mean size (AS) is 5.00, with values ranging from 3 to 6 members, showing relatively low variability (Std. Dev = 0.83). The negative skewness (-1.22) and high kurtosis (4.50) indicate a left-skewed and leptokurtic distribution. The mean meeting frequency (AM) is 3.36, with firms meeting between 2 to 5 times. It exhibits moderate dispersion (Std. Dev = 1.00) and slight negative skewness (-0.48). Audit committee independence (AI) has a mean of 2.67, with a minimum of 1 and a maximum of 4 independent members. Its skewness (-0.88) and moderate kurtosis (3.33) indicate a slightly left-skewed distribution.

Table 2. Regression Result

Dependent Variable: DA
Method: Panel Least Squares
Date: 04/01/25 Time: 11:37
Sample: 2019 2023
Periods included: 5
Cross-sections included: 9
Total panel (balanced) observations: 45

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AS	2.244877	33.60400	0.066804	0.9471
AM	8.860019	20.47426	0.432739	0.0475
AI	14.45684	30.53728	0.473416	0.0384
C	78.16689	101.4495	0.770500	0.4454

R-squared	0.612080	Mean dependent var	75.76378
Adjusted R-squared	0.560207	S.D. dependent var	103.8960
S.E. of regression	106.9779	Akaike info criterion	12.26781
Sum squared resid	469215.3	Schwarz criterion	12.42840
Log likelihood	272.0257	Hannan-Quinn criter.	12.32768
F-statistic	0.167108	Durbin-Watson stat	1.746819
Prob(F-statistic)	0.007947		

Source: EViews 9.0

The regression results indicate the relationship between audit committee characteristics and discretionary accruals (DA), serving as a proxy for financial statement quality. The coefficient for audit committee size (AS) is 2.24, but its high p-value (0.9471) suggests that it has no statistically significant effect on DA. In contrast, audit committee meeting frequency (AM) and audit committee independence (AI) both have positive and statistically significant coefficients (8.86, p = 0.0475, and 14.46, p = 0.0384, respectively), indicating that more frequent meetings and higher independence are associated with increased discretionary accruals. This suggests that, rather than constraining earnings management, more meetings and greater independence may be linked to higher discretionary accruals, potentially due to ineffective oversight or symbolic governance practices. The model explains a moderate proportion of the variation in discretionary accruals, with an R-squared value of 0.612 and an adjusted R-squared of 0.560, meaning about 56% of the variation in DA is explained by the independent variables. The F-statistic (0.167) and its p-value (0.0079) indicate that the overall model is statistically significant, supporting the relevance of audit committee characteristics in explaining DA. However, the Durbin-Watson statistic (1.746) suggests some possibility of autocorrelation, which may affect the reliability of the estimates.

4.1 Hypotheses Testing

Ho1: Audit committee size has no significant relationship with discretionary accruals of industrial goods companies in Nigeria.

According to the regression analysis, the audit committee size (AS) coefficient is 2.244877, and the p-value is 0.9471, both of which are higher than the significance level of 0.05. The null hypothesis (Ho1) cannot be rejected since the p-value is not statistically significant, leading us to infer that audit committee size has no discernible effect on discretionary accruals.

Ho2: Audit committee meetings have no significant relationship with discretionary accruals of industrial goods companies in Nigeria.

With a p-value of 0.0475 and a coefficient of 8.860019 for audit committee meetings (AM), the results fall below the significance level of 0.05. We conclude that there is a substantial correlation between audit committee meetings and discretionary accruals since the p-value is statistically significant, hence rejecting the null hypothesis (Ho2).

Ho3: Audit committee independence has no significant relationship with discretionary accruals of industrial goods companies in Nigeria.

With a p-value of 0.0384, the audit committee independence (AI) coefficient is 14.45684, below the significance level of 0.05. We conclude that there is a substantial association between audit committee independence and discretionary accruals since the p-value is statistically significant, hence rejecting the null hypothesis (Ho3).

5. CONCLUSION

This study found that among Nigerian industrial products businesses, audit committee characteristics were associated with discretionary accruals in different ways. There was no statistically significant correlation between the number of members of an audit committee and discretionary accruals, indicating that this metric is unrelated to earnings management. Discretionary accruals were positively related to audit committee meeting frequency and independence, suggesting that higher degrees of earnings management were linked with more frequent meetings and more independence. Although audit committees were established to improve financial supervision, these data cast doubt on their ability to curb discretionary accruals.

5.1 Recommendations

- Enhancing Audit Committee Effectiveness – Regulatory bodies and company boards should focus on strengthening the effectiveness of audit committees beyond just increasing their size.
- Improving Audit Committee Meeting Quality – While frequent meetings were found to be associated with higher discretionary accruals, firms should ensure that these meetings are substantive and focused on improving financial oversight.
- Strengthening the Independence of Audit Committees – Given that greater independence was linked to increased discretionary accruals, companies should reassess their selection criteria for independent members.
- Regulatory and Policy Improvements – Policymakers should establish stricter corporate governance regulations to enhance the role of audit committees in financial reporting.

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