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AUDIT COMMITTEES' ATTRIBUTES AND FINANCIAL REPORTING QUALITY AMONG NIGERIAN LISTED DEPOSIT MONEY BANKS

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ABSTRACT

Financial reports give stakeholders accurate insights into a bank's financial health, performance, and prospects. The audit committee plays a pivotal role in ensuring the quality of these financial reports. There are, however, concerns about the audit committee's effectiveness in its role. This study examined the effect of Audit Committees' Attributes on the financial reporting quality of Nigerian listed Deposit Money Banks (DMBs). This study further examined the factors determining the audit committee's effectiveness, namely its size, independence, and financial expertise, and how they affect the quality of financial reports measured by the Jones' discretionary accrual model. The study employed ex-post-facto research design and the Ordinary Least Squares technique to investigate the relationship between the variables using 12 DMBs listed on the Nigerian Exchange Group as of December 2022. Findings revealed that audit committee size [coef. = -0.008 (0.051)] has a marginally significant negative effect, while the audit committee's financial expertise [coef. = 0.010 (0.002)] has a significant positive effect on the financial reporting quality of listed DMBs. These findings suggest that a large audit committee size may reduce coordination among members, leading to less effective oversight or causing a dilution of members' influence, resulting in reduced focus and accountability. The Audit Committee's independence [coef. = 0.000 (0.533)], however, does not significantly affect financial reporting quality. The study recommended that the Board should consider an optimal audit committee size and be cognizant of appointing members with proven financial expertise to the audit committee, while also maintaining the audit committee's independence to avoid a conflict of interest between management and shareholders.

Key words: *Audit Committee Independence, Audit Committee Size, Financial Expertise, Financial Reporting Quality.*

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INTRODUCTION

Financial reporting quality is a foundation for transparency and accountability within the Nigerian banking sector (Isa et al., 2024). It is essential for fostering investor confidence, enhancing communication channels between management, external auditors, and regulatory authorities, and ensuring the integrity of financial markets (Babalola et al., 2025). It also gives stakeholders accurate insights into a bank's financial health, performance, and prospects, facilitating informed decision-making among investors, regulators, and the public (Mesioye

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& Bakare, 2024; Owojori & Asaolu, 2018). Furthermore, high-quality financial reporting enhances the overall credibility and reputation of the banking sector (Adegbie & Fofah, 2016), promotes investor confidence, attracts foreign investment, and contributes to the overall development and growth of the Nigerian economy (Oseni & Akindele, 2020). Babajide and Olokoyo (2017) noted that challenges persist in the Nigerian banking sector despite regulatory advancements, but audit committees play a pivotal role in addressing these challenges.

Composed of independent directors with financial expertise, audit committees oversee financial reporting processes, internal controls, and external audits within banks (Abdulrahman, 2020). Moreover, audit committees contribute to risk management efforts by identifying financial risks and evaluating the adequacy of risk mitigation strategies implemented by bank management (Tiamimi, 2021; Oseni & Akindele, 2020; Ibrahim & Abubakar, 2019). Despite the essential role of the audit committee in ensuring the quality of reliable financial reporting, there is growing concern about the effectiveness of this committee in Nigerian deposit money banks. Several studies have established a significant relationship between audit committee characteristics and the quality of financial reporting and disclosures, with mixed results (Agyei-Mensah, 2022; Safari et al., 2021; Salehi & Shirazi, 2016; De Vlaminck & Sarens, 2015). Additionally, following the recent recapitalization order by the CBN (CBN Financial Policy & Regulatory Circular, 2024), it is essential to ensure that the audit committee continues to oversee the production of high-quality financial reports by deposit money banks.

Objectives

The main objective of this study is to assess the effect of the audit committee's effectiveness, as measured by its attributes of size, independence, and expertise, on the financial reporting quality of deposit money banks in Nigeria, using data from the last ten years, ending in 2022.

LITERATURE REVIEW

Audit Committee

Audit committees are specialized subcommittees within a company's board of directors, primarily responsible for overseeing financial reporting, auditing processes, and internal controls (Ologun, 2022; FRCN Code of Corporate Governance, 2018). Audit committees enhance the overall quality of financial reporting by detecting irregularities, reducing the possibility of fraud, and preventing the manipulation of financial data, thereby influencing investor confidence, market integrity, and corporate transparency (Babalola et al., 2025; Zubairu & Yahaya, 2024). The presence of an audit committee symbolizes good corporate

governance, reflecting a commitment to accountability and transparency (Al-Shaer et al., 2022).

The audit committee ensures that financial statements are prepared in accordance with applicable accounting standards and verifies that they provide a true and fair view of the company's financial position (Ahmed, 2015; Braiotta et al., 2010). The committee ensures that any significant accounting judgments and estimates used in the preparation of financial statements are reasonable and justified (Braiotta et al., 2010). It also monitors the company's internal controls and risk management systems (Samimi, 2020; Abdullah et al., 2018) and ensures transparent communication with shareholders and other stakeholders regarding the company's financial health and governance practices (Babalola et al., 2025; Efunniyi et al., 2024; Benichou, 2024). The audit committee also oversees the work of external auditors, including selecting and appointing them, reviewing and approving their audit plans, and ensuring their independence and objectivity (Braiotta et al., 2010; Abbott et al., 2004). The committee also reviews the external audit findings and ensures that any issues raised are addressed promptly (Malik, 2014; Stewart & Munro, 2007). The audit committee reviews and approves the internal audit plan, monitors the progress of internal audit activities, and ensures that internal audit findings are acted upon by management (Abdullah et al., 2018; Braiotta et al., 2010). The committee also ensures compliance with relevant laws, regulations, and corporate policies. This includes overseeing the company's ethics and compliance programs, investigating any reported compliance issues, and ensuring appropriate corrective actions are taken (Bhasin, 2016; Braiotta et al., 2010).

In practice, audit committees in Nigeria play a pivotal role in overseeing financial reporting and internal controls through their rigorous meeting schedules, specific activities, and interactions with both internal and external auditors, thus contributing significantly to enhancing financial reporting quality and stakeholder confidence in the Nigerian banking sector. In bid to further evaluate the relevance of this discourse, the following hypotheses were formulated:

H_{01}: Audit committee size has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

H_{02}: Audit committee independence has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

H_{03}: Audit committee financial expertise has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

Audit Committee Effectiveness and Financial Reporting Quality

The effectiveness of the audit committee is influenced by several critical factors, including its composition, independence, expertise, and the rigor of its oversight functions. The audit committee actively engages in reviewing financial statements, challenging management assumptions, and overseeing audit processes to identify and mitigate potential errors or irregularities (Mbelwa & Munyangabi, 2024). Furthermore, the effectiveness of audit committees is instrumental in mitigating risks associated with financial reporting within the banking sector. By providing robust oversight of internal controls and risk management practices, effective audit committees help prevent financial misstatements and fraudulent activities (Okpala, 2012). This proactive approach not only safeguards stakeholder interests but also strengthens the governance framework of banks, contributing to their long-term stability and resilience in the market. In essence, audit committees play a crucial role in promoting high-quality financial reporting within Nigerian banks. As regulatory landscapes evolve, audit committees must remain adaptive and proactive, continually improving their oversight functions to address emerging challenges in the banking sector. By upholding principles of independence, expertise, and accountability, audit committees play a pivotal role in sustaining trust and credibility in financial markets.

Theoretical Review

Agency theory highlights the principal-agent relationship, where audit committees act as a crucial mechanism to align the interests of shareholders and management (Jenson & Meckling, 1976). . In Nigerian banks, audit committees serve as crucial oversight bodies tasked with monitoring financial reporting, internal controls, and risk management practices. By scrutinizing financial statements and ensuring compliance with regulatory standards, audit committees help mitigate agency conflicts by aligning managerial actions with the interests of shareholders. The agency theory forms the fulcrum upon which this study is based.

Empirical Review

Olayinka (2019) investigated the relationship between audit committee size and financial expertise, among others, on firm performance using a sample of 8 public quoted banks in Nigeria from 2011- 2015. The study found no significant relationship between the variables. Ibrahim and Thomas (2024) also found a positive relationship between audit committee financial expertise and financial reporting quality, and no significant relationship between audit committee size, independence, and financial reporting quality. The study used a sample

of 21 listed consumer goods on the Nigerian Exchange Group as of December 2022, for the period 2012-2022.

Tanko and Siyanbola (2019) investigated the impact of audit committee size on the financial reporting quality of selected listed firms in the Nigerian Stock Exchange (NSE) from 2009-2018. The study sample comprised three (3) conglomerate firms and nine (9) oil and gas firms, and the Modified Jones model of discretionary accruals was used to represent financial reporting quality. Findings revealed that the audit committee size has a significant negative effect on financial reporting quality.

Essien et al. (2024) also found that audit committee size and financial expertise have no significant relationship with financial reporting quality among listed non-financial firms in Sub-Saharan Africa. The sample consists of 235 listed non-financial firms in Nigeria, South Africa, and Kenya for the period 2013 – 2022. The independence of audit committee members stands as a cornerstone principle, ensuring impartiality in their oversight of financial reporting and internal controls. Independent members are free from conflicts of interest that could compromise their objectivity, fostering transparency and accountability in governance practices (Fama & Jensen, 1983). The expertise and qualifications of audit committee members play a crucial role in their ability to scrutinize complex financial matters and evaluate the accuracy of financial statements. Committees comprising members with backgrounds in accounting, finance, auditing, and risk management bring valuable insights and skills to the oversight process, enhancing the committee's effectiveness in challenging management assumptions and ensuring reliable financial reporting (Abdullah & Valentine, 2009). Mwangi (2018) also reported a significant negative relationship between audit committee independence, financial expertise, and financial reporting quality in his study of 72 non-commercial listed state corporations in Kenya.

Abbott et al. (2004) examined the impact of certain audit committee characteristics identified by the BlueRibbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC) on the likelihood of financial restatement, using 88 restatements of annual results (without allegations of fraud) from the period 1991–1999. The study found that audit committee independence and activity level (a proxy for audit committee diligence) exhibit a significant and negative association with restatement, while there is a significant negative association between an audit committee's financial expertise and restatement.

Gaps in the Literature

Existing literature on audit committees and financial reporting quality show inconsistent findings regarding the impact of audit committee size, independence, and financial expertise. While some studies suggest that larger audit committees might enhance oversight by providing diverse perspectives, others argue that they may suffer from coordination issues and diluted effectiveness (Ibrahim et al., 2024; Essien et al., 2024; Olayinka, 2019; Tanko & Siyanbola, 2019; Abbott et al., 2004). Similarly, although audit committee independence is generally considered crucial for mitigating managerial influence, its direct effect on financial reporting quality remains underexplored, particularly when other factors are present. Additionally, while financial expertise is widely acknowledged as beneficial for enhancing financial reporting quality (Ibrahim & Thomas, 2024; Okafor et al., 2019), the interaction between financial expertise and other audit committee characteristics remains poorly understood. Again, there is a need to update existing studies on the relationship among these variables in the banking sector, particularly in response to the CBN Financial Policy & Regulatory Circular, 2024. This study aims to address these gaps by investigating the specific effects of audit committee size, independence, and financial expertise on the quality of financial reporting in Nigerian banks.

MATERIAL AND METHODS

This study adopted the ex-post facto research design. Secondary data were obtained from the selected banks' annual reports and financial statements for the period 2013 - 2022. The population of this study comprises all the deposit money banks listed on the Nigerian Exchange Group as of December 31, 2022, totaling 24. The population of interest is subject to the same regulatory environment and has similar financial reporting obligations. The sample comprises 12 banks that had their data complete for the relevant period, i.e., 2013–2022. The data also include information on cash flow from operations, used as a control variable. The data collected were analyzed using Ordinary Least Squares (OLS) regression analysis. The descriptive statistics and a correlation matrix, among other tests, were generated to assess the relationships between the variables.

The model for this study was adapted from the work of Olayinka (2019), stated as follows:

$$FRQT_{it} = \beta_0 + \beta_1 AUCS_{it} + \beta_2 AUCI_{it} + \beta_3 AUFX_{it} + \beta_4 CFOA_{it} + \mu_{it} \ldots\ldots\ldots \text{Eqn 1.}$$

Where:

AUCS = Audit Committee Size; AUCI = Audit Committee Independence; AUFX = Audit Committee Financial Expertise; CFOA = Cash Flow from Operations (Control Variable); µit = Error Term; t = Time; i = Banks; β_0 - β_4 = Coefficients of the variables;

FRQT = Financial Reporting Quality, measured by the Jones Discretionary accrual model (Dechow et al., 1995), is given as:

$FRQT_{it}=TA_{it}-NA_{it}$;

NA_{it} = *Accrual Revenue – Accrual Expenses*

$$TA_{it} = \beta_0 + \beta_1(\frac{1}{AT_{it-1}}) + \beta_2 \Delta REV_{it} + \beta_3 PPE_{it} + \varepsilon_{it} \ldots\ldots\ldots \text{ Eqn 2.}$$

Where:

TA_{it} = Total accruals for a company in period t; NA_{it} = Net accruals for a company in period t; AT_{it} = Total assets of firm i in year t-1; ΔREV_{it}= Change in revenue for firm i in year t; PPE_{it} = Property, plant, and equipment for firm i in year t; ε_{it} = Error term

Table 1: Operationalisation of Variables

Variable	Measurement	Sources
Dependent Variable		
Financial Reporting Quality (FRQT)	Financial reporting quality is measured in terms of Jones Discretionary Accrual Model i.e. (Total Accruals – Net Accruals). Total Accruals = Δ in CA - Δ in Cash + (Δ in CL – Short term debt and current portion of long term debt) – Depreciation. Net Accruals = Accrual Revenue – Accrual Expenses.	Essien et al., (2024) ; Olayinka (2019)
Independent Variable		
Audit Committee Size (AUCS)	The total number of members on the audit committee	Ologun,2022;Tanko & Siyanbola, 2019.
Audit Committee Independence (AUCI)	The proportion of independent members on the audit committee relative to the total members.	Ologun, 2022; Mwangi, 2018; Abott et al. (2004)
Audit Committee Financial Expertise (AUFX)	The proportion of audit committee members with financial expertise.	Ibrahim & Thomas (2024); Essien et al. (2024)
Control Variable		

Cash Flow from Operations (CFOA)	Net cash flow from operating activities, as reported in the financial statements.	Annual Reports

Source: Author's Compilation, 2024.

RESULT AND DISCUSSIONS

Descriptive Statistics

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Frqt	120	-0.047	0.111	-0.300	0.410
Aucs	120	5.942	0.652	4.000	8.000
Auci	120	60.378	20.516	40.000	100.000
Aufx	120	1.067	0.807	0.000	2.000
Cfoa	120	0.023	0.092	-0.370	0.230

Source: Author (2024)

From Table 2, financial reporting quality (FRQT) has a mean value of -0.047, indicating that, on average, the banks in the sample exhibited negative discretionary accruals, suggesting relatively conservative financial reporting. The standard deviation of 0.111 shows some variability in the financial reporting practices across the sample, with the minimum and maximum values ranging from -0.300 to 0.410. This range implies that while some banks engaged in aggressive earnings management (positive accruals), others practiced more conservative accounting (negative accruals). For the independent variables, the study reveals that the average audit committee size (AUCS) is approximately 6 members, with a standard deviation of 0.652, indicating a fairly consistent size across the banks. The range of audit committee size from 4 to 8 members suggests that while most banks adhere to regulatory guidelines regarding audit committee size, some variation could reflect differences in governance practices or the complexity of the banks' operations.

Audit committee independence (AUCI) has a mean value of 60.378%, with a relatively high standard deviation of 20.516%, suggesting significant variation in the proportion of independent directors across the sample. The minimum and maximum values of 40% and 100%, respectively, indicate that while some banks have fully independent audit committees, others have a lower level of independence, which may impact the committee's effectiveness in overseeing financial reporting. Also, the Audit Committee Financial Expertise (AUFX) shows a mean value of 1.067, with a standard deviation of 0.807, indicating that, on average, there is slightly more than one financially expert member on each audit committee. However, the range from 0 to 2 suggests that not all audit committees have members with financial

expertise, which could have implications for the quality of financial oversight and, consequently, the quality of financial reporting. In the case of the control variable, cash flow from operations (CFOA) has a mean of 0.023, with a standard deviation of 0.092, indicating low variability in cash flow performance among the banks. The minimum value of -0.370 and maximum of 0.230 suggest that while most banks generate positive cash flow from operations, a few experience negative cash flows, which could influence their financial reporting practices as they might be under pressure to present a more favorable financial position.

Normality Test

Table 3: Shapiro-Wilk Test for Data Normality

Variable	Obs	W	V	Z	Prob>z
frqt	120	0.973	2.587	2.130	0.017
aucs	120	0.973	2.617	2.155	0.016
auci	120	0.869	12.618	5.680	0.000
aufx	120	0.999	0.065	-6.128	1.000
cfoa	120	0.972	2.659	2.191	0.014

Source: Author (2024)

From Table 3, the study finds that the dependent variable of financial reporting quality (FRQT) (prob>z = 0.017) is not normally distributed since the probability of the z-statistic, as revealed by the Shapiro-Wilk test, is significant at the 5% significance level. The same is true for the independent variables of audit committee size (AUCS) (prob>z = 0.016), audit committee independence (AUCI) (prob>z = 0.000), and the control variable of cash flow from operations (CFOA) (prob>z = 0.014) However, the independent variable of audit committee financial expertise (AUFX) (prob>z = 1.000) follows a normal distribution, as the probability of the z-statistic as revealed by the Shapiro-Wilk test is insignificant at the 5% significance level. Given these results, we employed the Spearman Rank Correlation to examine the relationships between the variables under study, as several key variables did not meet the assumption of normality.

Data Analyses

Correlation Analysis

Table 4: Spearman's Rank Correlation

Variables	(1)	(2)	(3)	(4)	(5)
(1) frqt	1.000				
(2) aucs	-0.036	1.000			
(3) auci	-0.036	-0.313	1.000		
(4) aufx	-0.021	0.208	0.034	1.000	
(5) cfoa	-0.941	-0.001	0.094	0.090	1.000

Source: Author (2024)

The results in Table 4 indicate a weak negative association between audit committee size (AUCS) (-0.036) and financial reporting quality (FRQT). Similarly, there is a weak negative association between audit committee independence (AUCI) (-0.036) and financial reporting quality. Audit committee financial expertise (AUFX) shows a very weak negative association (-0.021) with financial reporting quality. The control variable, cash flow from operations (CFOA), exhibits a strong negative association (-0.941) with financial reporting quality during the period under study. Additionally, the results reveal a moderate negative association between audit committee size (AUCS) and audit committee independence (AUCI) (-0.313). However, audit committee size (AUCS) is moderately positively associated with audit committee financial expertise (AUFX) (0.208). The correlation between audit committee independence (AUCI) and audit committee financial expertise (AUFX) is very weakly positive (0.034). Furthermore, there is a weak positive association between audit committee independence (AUCI) (0.094) and cash flow from operations (CFOA), and a similar weak positive association (0.090) between audit committee financial expertise (AUFX) and cash flow from operations (CFOA).

Regression Analyses

The pooled OLS regression results obtained is presented and discussed in Table 5.

Table 5: Linear Regression

Frqt	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Aucs	-.008	.004	-1.97	.051	-.015	.000	*
Auci	.000	.000	0.63	.533	.000	.000	
Aufx	.010	.003	3.18	.002	.004	.016	***
Cfoa	-1.124	.030	-37.55	.000	-1.183	-1.065	***
Constant	.01	.027	0.36	.72	-.043	.062	

Mean dependent var	-0.047	SD dependent var	0.111
R-squared	0.877	Number of obs	120
F-test	374.463	Prob > F	0.000
Akaike crit. (AIC)	-430.063	Bayesian crit. (BIC)	-416.126

*** $p<.01$, ** $p<.05$
Source: Author (2024)

In table 5, it is observed from the OLS pooled regression that the R-squared value of 0.877 shows that about 88% of the systematic variations in financial reporting quality when measured in terms of Jones Discretionary Accrual Model (FRQT) of the pooled deposit money banks over the period of interest was jointly explained by the independent and control variables in the model. The unexplained part of financial reporting quality can be attributed to the exclusion of other independent variables that can impact financial reporting quality but were captured in the error term. The F-statistic value of 374.463 and the associated P-value of 0.000 indicate that the OLS regression model is statistically significant at the 1% level, suggesting that the regression model is valid and can be used for statistical inference. However, the study conducts some post-regression tests to validate the OLS regression estimates further.

Multicollinearity and Heteroskedasticity Tests

Table 6: Multicollinearity Test

Variable	VIF	1/VIF
aucs	1.19	0.842316
auci	1.15	0.868680
aufx	1.05	0.953079
cfoa	1.01	0.994487
Mean VIF	1.10	

Heteroskedasticity Test

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Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of frqt

         chi2(1)      =     0.34
         Prob > chi2  =   0.5605
```

Source: Author (2024)

From Table 6, the mean VIF for the variables in the OLS regression model is 1.10, which is well below the commonly accepted threshold of 10. This indicates no severe multicollinearity among the independent variables and that the model is appropriate. The Breusch-Pagan Godfrey test results also reveal the absence of heteroscedasticity problems in the model since its probability value was insignificant at 1% or 5% [0.34 (0.5605)]. The absence of heteroscedasticity in the model clearly shows that our sampled banks are homogeneous. This,

therefore, means that the study relies on the estimate of the pool OLS regression for policy interpretation.

Test of Hypotheses

The specific analyses for each independent variable using the OLS regression are discussed below.

Hypothesis One

H_o: Audit committee size (AUCS) has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

From Table 5, audit committee size [coef. = -0.008 (0.051)] has a marginally significant negative effect on the financial reporting quality of listed deposit money banks in Nigeria during the period under study. The result implies that an increase in audit committee size is associated with a slight decrease in financial reporting quality. Hence, the null hypothesis that audit committee size has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria is rejected.

This outcome could suggest that larger audit committees may struggle with coordination, resulting in less effective oversight. Alternatively, an increase in size could dilute the influence of individual members, resulting in reduced focus and accountability. This finding aligns with the observations of Tanko and Siyanbola (2019) and Abbott et al. (2004), who noted that larger audit committees might suffer from groupthink or diffusion of responsibility, leading to less rigorous scrutiny of financial statements. However, this result contrasts with the findings of Mohammed et al. (2016), who argued that larger audit committees are better equipped to manage the complexities of financial reporting due to a broader range of expertise and perspectives. In their study, they found a positive correlation between audit committee size and financial reporting quality, suggesting that more members bring more diverse skills and experiences that can enhance oversight. The disagreement between these studies highlights the potential context-specific nature of audit committee effectiveness, where the optimal size may depend on the specific characteristics of the firms and the regulatory environment. Mwangi (2018) also supports the view that larger audit committees can dilute the effectiveness of oversight due to increased difficulties in coordination and communication among members. They found that smaller, more focused committees effectively ensured high-quality financial reporting. This perspective aligns with the findings of this study, highlighting the potential drawbacks of increasing the audit committee's size without corresponding enhancements to its governance structure.

Hypothesis Two

H_o: Audit committee independence (AUCI) has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

Table 5 also reveals that audit committee independence [coef. = 0.000 (0.533)] has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria during the study period. This implies that changes in audit committee independence do not significantly influence financial reporting quality. Hence, the null hypothesis that audit committee independence has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria is accepted.

This result suggests that other factors, such as the expertise and engagement level of committee members, may be more crucial in ensuring high-quality financial reporting than their independence status alone. This finding contrasts with the study by Mohammed et al. (2016), which highlighted the importance of audit committee independence in improving financial reporting quality. They argued that independent members are less likely to be influenced by management and therefore more likely to enforce rigorous financial reporting standards. However, the lack of significance found in this study suggests that independence alone may not be sufficient, unless complemented by other factors, such as financial expertise or active participation. Ibrahin and Thomas. (2024) found similar results, noting that independence without the necessary expertise does not significantly impact financial reporting quality. They argued that while independence is important, it must be accompanied by other factors such as financial literacy and active involvement in the committee's activities to be truly effective. This perspective aligns with the findings of this study, indicating that independence, while valuable, is not a standalone solution to ensuring high-quality financial reporting. On the other hand, Mwangi (2018) suggested that the mere presence of independent members may not be sufficient if these members lack the requisite financial expertise or are not fully engaged in their oversight roles. This idea is consistent with the findings presented here, which suggest that independence does not significantly impact financial reporting quality, highlighting the need for a more nuanced approach that extends beyond simply appointing independent members to audit committees.

Hypothesis Three

H_o: Audit committee financial expertise (AUFX) has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

Also from Table 5, the results show that audit committee financial expertise [coef. = 0.010 (0.002)] has a significant positive effect on the financial reporting quality of listed deposit money banks in Nigeria during the study period. The result implies that an increase in audit committee financial expertise significantly improves financial reporting quality. Hence, the null hypothesis that audit committee financial expertise has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria is rejected.

This result implies that audit committees with members who possess strong financial backgrounds are better equipped to scrutinize financial statements, identify discrepancies, and ensure that reporting is accurate and compliant with relevant standards. This finding aligns with the conclusions of Ibrahim and Thomas (2020) and Okafor et al. (2019), who emphasized the importance of having financially literate members on the audit committee. They argued that financial expertise is crucial for understanding complex financial reports and for providing effective oversight. This study's results support this view, highlighting that expertise significantly enhances the committee's ability to monitor and improve financial reporting quality. Similarly, Okafor et al. (2019) found that audit committees with greater financial expertise were more effective in their roles, leading to better financial reporting outcomes. Their study suggested that members with financial expertise could ask the right questions and challenge management's assumptions, thereby improving the overall quality of financial reports. The positive effect observed in this study reinforces this idea, demonstrating that expertise is a key factor in enhancing financial reporting quality. However, this result contrasts with the findings of Mwangi (2018) and Abbott et al. (2004), who noted that while financial expertise is important, it must be balanced with other factors such as independence and active participation. Abbott et al. (2024) found that financial expertise alone did not guarantee better outcomes if the committee members were not independent or engaged. Despite this, the significant positive impact of financial expertise found in this study suggests that in the context of Nigerian banks, expertise is a particularly important factor in ensuring financial reporting quality.

CONCLUSION AND RECOMMENDATIONS

The main problem addressed by this study is the need to understand how different characteristics of audit committees impact the financial reporting quality of listed deposit money banks in Nigeria. The study aimed to determine the effects of audit committee size, independence, and financial expertise on financial reporting quality over a nine-year period. The key findings indicate that audit committee size has a marginally negative impact, audit committee independence shows no significant impact, and audit committee financial expertise has a positive impact on financial reporting quality. These findings highlight the importance of the composition and expertise of audit committees in influencing the accuracy and reliability of financial reports. The study underscores that while larger audit committees may not necessarily improve financial oversight, the expertise of the committee members plays a critical role in enhancing the quality of financial reporting. These takeaways suggest that attention should be focused not only on the structure but also on the substance of audit committee memberships.

Based on this study's findings, a general recommendation is that corporate governance practices in deposit money banks in Nigeria should be critically reviewed to ensure that audit committees are structured to maximize their effectiveness in enhancing financial reporting quality.

1 **Audit Committee Size:** It is recommended that corporate managers and directors should carefully consider the optimal size of their audit committees. While it may be tempting to increase the size to include more diverse perspectives, this study indicates that larger committees might negatively impact financial reporting quality. Therefore, a balanced approach should be adopted, ensuring that the committee is large enough to cover necessary competencies but not so large that it becomes inefficient. Policy makers should provide guidelines on the ideal audit committee size to balance these concerns.

2 **Audit Committee Independence:** Although this study found that audit committee independence did not significantly affect financial reporting quality, it is still recommended that firms ensure their audit committees are independent to avoid any potential conflicts of interest. Independence alone may not be enough, but it is an important aspect of governance that can help maintain objectivity in financial oversight. Regulators and policymakers should continue to emphasize the importance of independence while also encouraging firms to enhance other complementary factors, such as expertise and active engagement.

3 **Audit Committee Financial Expertise:** Given the positive effect of financial expertise on financial reporting quality, it is crucial that audit committees include members with strong financial backgrounds. Corporate managers should prioritize the appointment of individuals with proven financial expertise to their audit committees to improve the accuracy and reliability of financial reports. Investors and analysts should also scrutinize the financial expertise of audit committee members when assessing firms' governance quality. Policy makers may consider mandating minimum financial expertise requirements for audit committee members to ensure high standards of financial oversight.

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