



**AUDIT COMMITTEE'S ATTRIBUTES AND QUALITY OF FINANCIAL REPORTING  
ON LISTED CONSUMER GOODS FIRMS IN NIGERIA**

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**Abstract**

*Confidence of the community in general and the investment community in particular in the accuracy of the Nigerian companies' financial reports has decreased due to the repeated documentation of accounting manipulations in financial statements. This has led to business takeovers and collapse. The prevalence of takeovers and or collapse has caused significant concern about how well corporate governance procedures guarantee the preparation and disclosure of more effective accounting records. Therefore, this study examined the effects of audit committees' attributes on the quality of financial reporting of listed consumer goods firms in Nigeria. The data for the study was obtained from the annual reports of the sample of sixteen consumer goods firms listed for the period 2009 to 2022. The data was analyzed using fixed effect regression analysis after conducting the Hausman test and the Breusch-Pagan test. The study found that audit committees independence (ACI), audit committees' size (ACS), and shareholders involvement in the committees (SIAC) have a considerable tendency to enhance the standard of published financial information of Nigerian consumer goods businesses that are listed. The study concluded that the audit committee affects the quality of the financial statements of listed consumer goods companies in Nigeria. To maintain an effective oversight function and foster a positive environment for the legally required audit that promotes a reliable and unbiased perspective of the financial information, this study proposed that the governing board of executives guarantee the nomination of appropriate audit committee members who have adequate financial skills, including shareholders.*

**Keywords:** Audit Committee, Discretionary Accrual Model, Earning Management, Financial Reporting Quality.

**JEL Classification-** M41, M42, G34

**INTRODUCTION**

Qualified financial analysts, government agencies, as well as other users of accounting information continue to have serious concerns about the accuracy of accounting records (Kantudu & Alhassan, 2022). Primarily, it serves as a fundamental means of communicating accurate, relevant, and trustworthy information which transpired within the organization to all users of accounting information. It makes it possible for businesses to evaluate how well the economy is doing and to evaluate the state and performance of a company's finances as well as a guide when making

financial decisions. Consequently, everyone who uses accounting information hopes that it will assist in determining the reporting entity's state of wellness and in making prudent financial choices. Numerous financial businesses and associations have been driven towards liquidation or faced serious financial difficulties as an immediate outcome of the global economic downturn that has been occurring over the last couple of decades around the globe because of the manipulations of figures in the financial statement. This has reduced public confidence in the figures in financial reports in making various investment decisions (Ayinla *et al.* 2022). A significant amount of emphasis was dedicated to accounting information in numerous nations throughout those turbulent periods. The most significant worry was the credibility and fairness in the quality of financial reporting around the world, the way they impact a specific business or organization's worth, as well as the functions of the corporate governance mechanisms.

An audit committee (AC) represents a single of the numerous managerial oversight tools. Corporate governance lapses in Nigeria, like those at Skye Bank plc and Diamond Bank plc, where managers are openly violating the CAMA Act (2004) by providing illicit advances to personalities and their friends, present an obstacle to the ACs. It requires all publicly traded companies to form an AC, which must consist of three autonomous directors and a minimum of three representatives of the stockholders, with a minimum of one of their members having experience in finance or accounting (Salloum, et al. 2014). The audited report must also be reviewed by the ACs to confirm that the procedure for auditing complies fully with all applicable laws and guidelines regarding planning and presenting of the financial statement. It equally reflects that the independent auditor has thoroughly reviewed every pertinent record and the relevant requirements. As a result, ACs have a greater opportunity to limit the suggestion of the use of discretionary accruals to achieve smooth results. In addition to guaranteeing outstanding standards for financial public disclosure, the committee is also in charge of keeping track of accounting procedures, upholding the autonomy of auditors, and controlling adherence to safeguard the objectives of stockholders. This boosts the public's and shareholders' hopes for improved company transparency (Jerry & Saidu 2017).

The desire of the public for more transparency and authenticity in company financial statements, coupled with the rise in accounting crises in the past few years, logically leads to two main findings. The significance of internal inspection skills has increased due to the resolution of intricate frauds in accounting which have obscured the accounting records. In reaction to public outcry and governmental involvement, the governance of companies has changed. This is the reason the reason why corporate leaders are held to greater levels of moral and legal responsibility (Adegboye, *et al.* 2020). These findings thus partly allayed the investment community doubts regarding the accuracy of the company's financial statements. Due to the close relationship that exists between audit committees and the auditing department, internal audits and audits themselves represent two fundamental and crucial aspects of the governance of a company (Velte 2022).

Given the pivotal role of consumer goods companies as they directly employ millions of people to manufacture, market, distribute and sell their products, they also create indirect employment via their supply chains and via the economic multiplier effect of their employees spending their wages. Consumer goods firms invest heavily in research and development to constantly innovate and improve their product offerings. This innovation raises product quality, performance, and value over time - fueling consumer demand. It also often has spillover benefits for other industries that

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utilize new materials, processes or technologies developed by consumer goods companies. Consumer goods firms play a central role in improving national living standards and are a key contributor to Nigeria's GDP growth. Thus, full disclosure by this industry is therefore very essential than any other sector of the economy as information about their activities need to be disclosed for investors and the public to take rational decisions at every point in time.

Several studies (Kantudu & Alhassan, 2022; Ayinla et al, 2022; Umobong and Ibanichukwu 2017; Jerry & Saidu 2017; Mose et al 2016) have looked at the impact of audit committee characteristics on the quality of financial reporting. These studies used a variety of variables, and the outcomes were inconsistent. Even though several research on audit committees have produced conflicting results, the majority of the research conducted in the Nigerian context was carried out in the financial, small, and non-financial sectors, and many of them based their analyses on data produced within five to seven years. In contrast, the present research obtained fourteen years of data, which is suitable to produce robust results. Hence, this study examines the effects of AC on the quality of financial reporting of listed consumer goods firms in Nigeria. AC independence, AC Financial Expertise, AC meeting and Shareholders Involvement in AC are proxies to measure AC, while quality of financial statement is measured with discretionary accrual model.

## LITERATURE REVIEW

### *Audit Committee (AC)*

The AC functions as the organizational boards of directors' functional arm, reducing disputes related to interests and, therefore, agency costs by acting as an oversight instrument that creates a connection amongst business and the auditor mandated by law (Chen & Zhou, 2007). This committee's primary responsibilities include supervising accounting records and administration to prevent earnings deception and additional accounting misconduct (Arens, *et al.* 2009). Additionally, an understanding of organizational control systems, bookkeeping and accounting, auditing, and control procedures is a prerequisite of an AC, and it is anticipated that members with this expertise will result in greater FRQ (Mustafa & Youssef, 2010). Evidence also shows Expertise, Independence, Gender Diversity, Shareholder 'Involvement', size, tenure, multiple directorships, and Diligence as AC attributes. This study focuses on Independent, Financial Expertise, Size, and Shareholder Involvement. In this study, both audit committee composition (Audit Committee Independent and Audit Committee Financial Expertise) and resources (Audit Committee Size; and Shareholder Involvement in the Audit Committee) were addressed (Velte 2022).

### *Audit Committee Attributes*

#### *Audit Committee Independent*

This refers to the degree of autonomy and objectivity that the audit committee possesses in carrying out its responsibilities within an organization. The primary role of the audit committee is to oversee the financial reporting process, monitor the internal control systems, and supervise the internal and external audit functions (Kantudu & Samaila, 2015). To effectively fulfill these duties, the audit committee must maintain a level of independence from the management and other stakeholders who may have vested interests. By maintaining independence, the audit committee can provide a critical check and balance within the organization, enhancing the credibility and reliability of the

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financial reporting process and promoting effective corporate governance practices (Adegboye, *et al.* 2020).

### ***Audit Committee Financial Expertise***

For an audit committee member to effectively perform his or her oversight responsibilities regarding financial reporting and auditing matters, he or she must possess significant financial knowledge and experience. Karajeh & Ibrahim (2017) affirmed that financial reporting requirements, regulatory frameworks, and best practices in financial disclosure and transparency will be better understood when familiarity with auditing standards, auditing processes, and the role of internal and external auditors is acquired. Bilal, et al. (2018) affirmed that effective corporate governance requires ACFE to reinforce the oversight of financial reporting integrity and to promote stakeholder confidence in the accuracy of financial information.

### ***Audit Committee Size***

An audit committee is composed of the members of a company's board of directors who serve as members of the audit committee of the company. Various factors can affect the effectiveness of the audit committee's oversight responsibilities depending on its size. A corporate governance guideline or regulation will typically recommend or require a minimum and maximum number of members for an audit committee, although there is not a universally prescribed ideal size. Some guidelines suggest an optimal range of three to five members for audit committees based on corporate governance best practices (Maina *et al.* 2017). Organizations, industries, and regulations may determine the specific size of a committee depending on their size and complexity. Having a sufficient number of members is essential for bringing diverse expertise and maintaining independence, while also ensuring the committee remains efficient and focused (Jerry & Saidu 2017).

### ***Shareholder Involvement***

A company's audit committee's composition, oversight, and decision-making processes are affected by the participation and influence of shareholders. The audit committee plays a crucial role in overseeing the financial reporting process, monitoring internal controls, and supervising internal and external audit functions (Albersmann & Hohenfels, 2017). As such, shareholders, who are the owners of the company, have a vested interest in ensuring the effectiveness and independence of the audit committee. The level of shareholder involvement in the audit committee can vary depending on the jurisdiction, regulatory requirements, and the company's corporate governance policies. Greater shareholder involvement is often seen as a means to enhance the accountability and independence of the audit committee, as well as to align its interests with those of shareholders (Kantudu & Alhassan, 2022). However, it is important to strike a balance between shareholder involvement and maintaining the appropriate level of expertise, independence, and objectivity within the audit committee to effectively carry out its oversight responsibilities.

### ***Financial Reporting Quality (FRQ)***

The extent to which a business's accounting records and disclosures offer accurate, transparent, and trustworthy information about its financial situation, effectiveness, and liquidity is referred to as financial reporting quality (Jabak 2022). For investors, shareholders, regulators, and other stakeholders to make well-informed decisions, excellent accounting information is essential. Firms

can demonstrate their stewardship obligation to their shareholders and other interested parties using accounting records. According to Adebayo (2005), executives provide corporate owners with reports on their activities in a well-organized way. Additionally, he declared that every accounting document had to be transparent about the resources—both acquired and already in place—their uses, and the outcomes of those activities. It is imperative to clarify, though, the fact that the fundamental objective of the reporting is to provide information to the owners along with additional participants about the resources and assets that are being obtained and how they are being used to produce an end product that establishes their profit margin and helps them make well-informed investment choices. There are two main objectives of FRQ: to support managerial transparency and decisions regarding investments. This is necessary so that investors may determine which investments will provide the best payout at a tolerable level of danger by using accounting information. Eluyela *et al.* (2020) state that financial reports are also utilized in a more general manner to assess how well management can utilize the funds that have been allocated to them in operating the business in question. That is, executive management is accountable to company proprietors not merely for the care and security of corporate resources but also, and perhaps most importantly, for their wise and profitable use as well as for protecting the company from unfavorable economic circumstances. Complying with professional standards constitutes one of the main ways to guarantee accurate FRQ. Previous studies utilized a variety of approaches to measurement FRQ. Several approaches have been proposed, such as accrual models (Jones, 1991; Dechow, *et al.* 1995); value relevance model (ii); annual report elements (iii); and qualitative features model (Abdulmalik & Che-Ahmad, 2016). Nonetheless, the accrual models that are taken into account in the present investigation are the ones that academics employ the most frequently.

The degree of earnings management (EM) is used in this model as a replacement for the FRQ. It determines the length to which EM is allowed by existing statutes and regulations. The model makes the assumption that executives maintain earnings via discretionary accruals—that is, accruals over which the manager has some influence (Aanu, *et al.* 2015). The foundation of this approach is the presumption that the revenues of a business represent the most significant information found in its financial reports. As a result, this is what most researchers typically use to evaluate the success and future prospects of an enterprise. It is believed that EM negatively affects the FRQ by reducing its capacity to determine efficacy (Abdulmalik & Che-Ahmad, 2016). The primary benefits of employing discretionary accruals to monitor EM, according to the model's advocates, are the comparatively straightforward nature of obtaining information and assessment. How to differentiate between discretionary and non-discretionary accruals nonetheless is this model's primary drawback (Abdulmalik & Che-Ahmad, 2016). Furthermore, the model only offers an indirect gauge for FRQ.

### ***Empirical Review***

#### ***Audit Committee Independence (ACI) and Financial Reporting Quality (FRQ)***

It is the responsibility as an unbiased auditor to turn revenue, counsel the enterprise on prudent investment choices, and confirm the accuracy of the accounting documents of the company in question. Part of AC's responsibility is to preserve the confidentiality of auditors operating both inside and outside the company, as it is anticipated that ACI will improve in these domains (Kantudu & Samaila, 2015). Boo and Sharma (2008) assert that an auditing firm's autonomy constitutes one of its vital characteristics. Generally speaking, independent auditors ought to

prevent any sort of interaction with the employees or the upper management of the company they are inspecting, as this could render their conclusions and suggestions appear shady and doubtful. As a result, establishing an appropriate level of objectivity is crucial to achieving the audit's purpose and objectives. The Sarbanes-Oxley Act of 2002 requires all traded on the stock market organizations to develop an ACI for the purpose to guarantee that enterprises can profit greatly from their day-to-day activities. Moreover, Anderson *et al.* (2003) state the fact that the ACI of the enterprise influences the FRQ the organization generates. Prior studies suggest a strong correlation between an increase in ACI and an upward trend in the FRQ. Also, some maintain that a full ACI would be considered more able to uphold its obligations and protect the best interests of investors because it would possess an increasingly impartial viewpoint. Thus, the first hypothesis is:

**H<sub>1</sub>:** *Audit committee independence has no significant influence on the financial reporting quality of listed consumer goods firms in Nigeria.*

### ***Audit Committee Financial Expertise (ACFE) and Financial Reporting Quality (FRQ)***

It is thought that having bookkeeping and financial skills within the AC will improve its effectiveness and capacity to identify and stop the manipulation of earnings. Someone in the team who is financially literate or competent in the accounting profession, finance, or managing finances will improve the FRQ, according to research by Kibiya *et al.* (2016). Moses (2019) pointed out that the description of the competence requirement provided is quite wide. They assert that any individual who served in a position of oversight that entails the creation of financial statements qualifies as someone with financial knowledge. These individuals include accountants who are certified public accountants, auditors, finance officers, and supervisors. The technical or managing experience can therefore be found, but which type of expertise—technical/accounting or supervisory/financial management—is important for ensuring audit reliability? Jerry & Saidu (2017) offer the proof that suggests managing skills may not guarantee a good audit and fails to translate into a successful comprehension of issues related to accounting. This has been corroborated by Kamolsakulchai (2015), who examined the impact of several forms of skill on the performance of audits and discovered that the only competence that significantly affected audit quality consisted of accounting expertise to determine an indicator for audit quality, Bala & Kumai (2015) employed ACFE, and this was expressed as a proportion of members possessing skills in accounting. They discovered a weak but favorable correlation with audit quality. Additionally, Karajeh & Ibrahim (2017) contended that AC members possessing the necessary financial knowledge have a greater ability to understand how choices and declarations in financial statements will affect the stock market. It is anticipated that these disclosures will lessen the asymmetry of information on the worth of a company and enhance the accuracy of reporting. Thus, audit committee quality constitutes one of the company's governance aspects that is particularly important, in accordance with the requirements of the Corporate Governance Guidelines (CCG) in Nigeria, which specifies that no fewer than one member is required to be competent to comprehend and read the accounting records. Thus, the second hypothesis is:

**H<sub>02</sub>:** *Audit committee financial expertise has no significant effect on the financial reporting quality of listed consumer goods firms in Nigeria.*

### ***Audit Committee Size (ACS) and Financial Reporting Quality (FRQ)***

The size and makeup of the AC are critical factors that must be taken into account when assessing a company's success and the veracity of its accounting records. The understanding of the AC will grow wider as its membership grows, which will make its duties more efficient. Hsu and Petchsakulwong (2010) found an intriguing relationship between the dimension of the AC and the caliber of financial reporting during their analysis. Fewer than three people in an AC increase the likelihood of failure, as reported by Maina et al. (2017). A successful AC of publicly traded firms should have a minimum of three members, according to the Akhtaruddin and Haron (2010). The research investigation conducted by DeZoort *et al.* (2002) revealed that the majority of beneficial ACs consists of three to four members. Hassan and Bello (2013) claim that if insufficient directors are serving on the advisory board, the FRQ that the AC produces worsens. This occurs as a result of fewer eyes on the accounting records due to a fewer-member committee. A smaller committee will probably render it more challenging for the board members to effectively perform their duties. Considering the AC has a greater proportion of experienced members than the fewer-member committee, its members have greater insight than those of the little committee. However, the effective functioning of the AC may be impacted by the large number of members on the advisory board. However, establishing an excessively big oversight group can cause problems with communication and operational challenges, which adds dimension to bad administration. Because a huge committee can result in additional expenses, the allocation of procedures and tasks is out of bounds. It has already been proven that choosing the right size for an AC can significantly improve the FRQ. Marcel's (2013) research indicates that a business entity should have approximately three or four members at most. A worldwide team of researchers examined the differences in AC size found in countries that are both developed and developing. They realized they were in good condition with one another. Thus, the third hypothesis is:

H<sub>03</sub>: *Audit committee size has no significant impact on the financial reporting quality of listed consumer goods firms in Nigeria.*

### **Shareholders involvement in Audit Committee (SIAC) and Financial Reporting Quality (FRQ)**

To protect their capital, owners in the AC may contribute a higher degree of discretion to the organization's AC operations. An AC made up of shareholders, according to Bajra & Čadež (2018), may strengthen making choices. Researchers added that as it is difficult to accurately forecast the outcome of an ongoing business document, a committee consisting of shareholders would probably reject outside auditors who provide one and dissent with the independent auditor. Furthermore, because of the significance of their shareholdings, major AC stockholders are more inclined to deliver successful AC efficiency. Additionally, by encouraging administrators to put money into economically viable, permanent portfolios of assets, they are more capable of discouraging organizational vision (Abernathy *et al.* 2015). According to the rule, stockholders must be capable of successfully fulfilling the twin duties of ownership and monitoring the reporting procedure to produce high-quality accounting statements that can be reviewed and assessed in a fair amount of period (Bala & Kumai, 2015). Additionally, as AC members, owners to reinstate the auditing committee's punctuality while also restoring the reputation of the entire company (Ghazali *et al.*, 2015). Since investors as well as stakeholders are becoming increasingly engaged in a company's prompt accounting statements, corporations that have substantial ownership stakes are expressing worry (Saleh, *et al.*, 2007). Shareholders may

efficiently monitor manager rights related to financial disclosure tasks as well as offer the auditor in the course of his or her responsibilities by joining the AC and using their controlling authority (Temple, 2016). Additionally, the public's trust in accounting records has strengthened primarily as a consequence of the involvement of owners (Stephen, *et al.*, 2019). According to Kibita *et al.* (2016), stockholders possessing shares gives individuals the authority to exercise full authority over the business's affairs while offering efficient oversight. Thus, the fourth hypothesis is:

H<sub>04</sub>: *Shareholders involvement in audit committee has no significant influence on the financial reporting quality of listed consumer goods firms in Nigeria.*

## ***Theoretical Review***

### ***Agency Theory***

Adam Smith originally brought attention to what he called the agency dilemma in the middle of the nineteenth century. Ross (1973) also investigated the subject, and Jensen and Meckling (1976) provided an initial comprehensive explanation of the theory. This idea holds that the corporation's proprietors, choose administrators thus to govern the company's operations on behalf of the stockholders (Clarke, 2004). The agreement connecting the individuals who own the company and the managerial staff is known as the agency relationship (Jensen & Meckling, 1976). According to the theory, shareholders anticipate that executives will perform their duties as well as decide on the most beneficial benefit of the ownership. Nonetheless, judgments made by managers can occasionally not be in the most advantageous interests of the owners (Padilla, 2002). To maximize the amount of a business's shareholder wealth, the theory focuses on the responsibilities of shareholders along with the division of responsibility influence. Considering the audit committee operates as a representative of a system of oversight to safeguard the interests of owners as well as other stakeholders in a company, the present research has applied the agency theory.

### ***Stakeholder Theory***

Over the previous thirty years, the stakeholder theory has undergone constant development. Freeman (1984) was among the primary thinkers to introduce the concept of the theory as a fundamental component of the managerial profession. Additionally, he put forth an overall hypothesis because applies to businesses and is predicated on the proposition that businesses ought to answer to an extensive variety of interested parties (Solomon & Solomon, 2004). In addition to considering the desires of the owners, the concept of stakeholder has recently been broadened to encompass a wide range of organizations with stakes, especially those with environmental, social, and moral concerns (Letza, *et al.* 2004). The relevance of the theory to the study is that effective administration of AC yields benefits to various stakeholder groups.

## **METHODOLOGY**

The research design employed for the study is the ex post facto design as past data were gathered from the reports of the listed consumer goods firms selected for the study. The aforementioned design was chosen since it enables researchers to examine the long-term consequences of interventions or events. Hence, this study used secondary data that was already available in the annual reports of the listed consumer goods firms in Nigeria for the period ranging from 2009 to 2022. The base year was selected because it is the year in which global recession in the late 2000s impacted earnings, asset valuations and stock prices of many listed firms like consumer goods firms across sectors in the Nigerian market. All twenty-one consumer goods firms that were listed

on the Nigerian Exchange Group (NGX) as of 2022 make up the study's population. Purposive sampling approach was used to gather data from sixteen (16) consumer goods firms (P Z Cussons Nigeria Plc.; Nigerian Brew. Plc.; Nestle Nigeria Plc. , Nascon Allied Industries Plc, Guinness Nig Plc, Honeywell Flour Mill Plc , Champion Brew. Plc., Multi-Trex Integrated Foods Plc, Flour Mills Nig. Plc., Dangote Sugar Refinery Plc, Vitafoam Nig Plc, International Breweries Plc., Nigerian Enamelware Plc, N Nig. Flour Mills Plc., Unilever Nigeria Plc and Golden Guinea Brew. Plc) after applying two filters as criterion to arrive at the sample size. Any consumer goods companies delisted within the period covered by the study were excluded and company must have available required data for the study. The data collected were analyzed using both descriptive and inferential statistical approaches such as correlation and regression analysis. Nevertheless, the multi-collinearity test and Hausman test were run on the data first. These checks were conducted to confirm hence the basic assumptions of a trustworthy regression model were properly taken into consideration and to ensure the equation wasn't going to yield fraudulent or insignificant outcomes.

### Model Specification

This research sought to determine how AC attributes affects FRQ in the listed consumer goods companies in Nigeria, the study adopts the model by (Kantudu & Alhassan, 2022; Ayinla *et al*, 2022)

$$DACC = \beta_0 + \beta_1 ACI_{it} + \beta_2 ACFE_{it} + \beta_3 ACM_{it} + \beta_4 SIAC_{it} + \beta_5 FS_{it} + \beta_6 PROF_{it} + \mu_{it} \quad (1)$$

### Dependent Variable Model

The dependent variable (FRQ) as it was stated above that it was measured with discretionary accrual model (DACC) where the formula was as follow;

$$TACC_{it} = \Delta CA - \Delta CL - \Delta Cash + \Delta STDEBT - DEP$$

Then the following model is used to estimate the expected accruals: The model has been widely used in the literature (Fera & Salzillo, 2021):

$$\frac{TACC_{it}}{TA_{it-1}} = \beta_0 \left( \frac{1}{TA_{it-1}} \right) + \beta_1 \left( \frac{\Delta REV_{it} - \Delta AR_{it}}{TA_{it-1}} \right) + \beta_2 \left( \frac{PPE}{TA_{it-1}} \right) + \beta_3 \left( \frac{ROA_{it}}{TA_{it-1}} \right) + \varepsilon_{it}$$

### Measurement of Variables

**Table 1:** Measurement of Variables

Variable(S)	Symbols	Variable Description	Source
<b>Dependent Variables</b>			
Financial Reporting Quality	discretionary accrual model (DACC)	modified Jones model	Fera & Salzillo, (2021)
<b>Independent Variables</b>			
	Audit Committee Independent (ACI)	percentage of Independent Audit Committee members compared to the entire audit committee	Kantudu & Alhassan, (2022); Ayinla et al, (2022)
	Audit Committee Expertise (ACFE)	percentage of members having financial expertise relative to the entire membership of the audit committee	Ayinla et al, (2022); Mose et al (2016)
	Audit Committee Size (ACS)	Natural log of the total audit committee members	Ayinla et al, (2022)

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	Shareholder Involvement in Audit Committee (SIAC)	proportion of shareholders to the total audit committee members	Kantudu & Alhassan, (2022)
<b>Control Variable</b>			
	Firm Size (FS)	Log of total assets	Haq Nawaz et al., (2022)
	Profitability (PROF)	PBIT/Total Asset	Haq Nawaz et al., (2022)

**Source:** Author's Compilation (2024)

## RESULT AND DISCUSSIONS

### *Descriptive Statistics*

**Table 2: Descriptive Statistics**

	Mean	Maximum	Minimum	Std. Dev.	Obs.
<b>DACC</b>	-0.0634	0.0148	-11.984	1.1493	224
<b>ACI</b>	1.9911	3.0000	1.0000	1.0022	224
<b>ACFE</b>	1.1161	2.0000	0.0000	0.7664	224
<b>ACS</b>	5.0223	6.0000	4.0000	0.9862	224
<b>SIAC</b>	2.3214	3.0000	1.0000	0.7948	224
<b>FS</b>	7.4773	8.7382	5.6608	0.6424	224
<b>PROF</b>	0.2126	3.1915	-0.8645	0.3423	224

**Source:** Author's Computation (2024)

Table 2 estimates the total sum of discretionary accruals (DACC) using the modified Jones model, which is widely used in the research field (Fera & Salzillo, 2021). DACC has an average value of -0.0634 with a standard deviation of 1.1493, a minimum value of roughly -11.984, and a maximum value of 0.0148. This indicates the degree of unscrupulous earning management by directors among listed consumer goods firms has decrease to 6% which is good, and shows that majority of the sampled firms comply to the code of conduct when conducting their operation and during the preparation of financial statement. The mean value for audit committee independent (ACI), audit committee financial experts (ACFE), audit committee size (ACS) and shareholders involvement in audit committee (SIAC) which are expressed in discrete data are 1.9911, 1.1161, 5.0223 and 2.3214 respectively. This demonstrates that the majority of the sample organizations followed the CCG's recommendations on the ACS, which called for an absolute minimum of three individuals and an aggregate of six members, as well as the involvement of no fewer than one financial professional. The minimum value of 0 for ACFE in the table indicates that several organizations failed to adhere to the criterion regarding the presence of accounting professionals in AC.

### *Correlation Analysis*

**Table 3: Correlation Analysis**

	DACC	ACI	ACFE	ACS	SIAC	FS	PROF
<b>DACC</b>	1						
<b>ACI</b>	-0.1270	1					
<b>ACFE</b>	0.0264	0.3110	1				
<b>ACS</b>	0.1401	0.6663	0.4614	1			
<b>SIAC</b>	-0.0180	0.4351	0.3305	0.5165	1		
<b>FS</b>	0.2057	0.1010	-0.0071	0.0934	0.0509	1	

**PROF** 0.0203 -0.0458 0.0130 -0.0490 -0.0099 -0.0694 1

**Source:** Author's Computation (2024)

The analysis is frequently employed whenever we wish to determine the degree of the connection involving more than one variable. Two elements of AC, including ACFE, and ACS, are shown in Table 3 above and have a favorable association with DACC. The analysis also reveals that ACI and SIAC have an adverse relationship with DACC. It also reveals that the variables are free from multi-collinearity problem since none of the coefficients exceed 0.80.

### Regression Result

This section shows the regression results for the equations stated above. This section

**Table 4: Regression Analysis**

Fixed Effects			Random Effects		OLS	
Variable	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
ACI	-3.9917	-1.8646*	-3.4598	-1.6553*	-2.8115	-1.3278
ACFE	0.5730	0.8074	0.6656	0.9919	0.7319	1.1319
ACS	-8.5102	-2.4561**	-7.5674	-2.2843**	-6.3274	-1.9276*
SIAC	-3.2044	-3.2605***	-2.9606	-3.1767***	-2.6377	-2.9300**
FS	0.5486	3.6786***	0.4073	3.2427***	0.2910	2.7301
PROF	0.2736	1.2229	0.1656	0.7967	0.0578	0.2942
C	-7.2672	-3.8610***	-5.8612	-3.4045***	-4.5111	-2.7812**
<b>R-squared</b>		0.2307		0.1054		0.0868
<b>Adjusted R-squared</b>		0.1439		0.0787		0.0596
<b>F-statistic</b>		2.6568		3.9457		3.1852
<b>Prob(F-statistic)</b>		0.0002		0.0009		0.0052
<b>Breusch-Pagan Test</b>		35.674 (0.0020)				
<b>Hausman Test</b>		9.4946 (0.0011)				

Note: \*\*\* (0.01), \*\* (0.05), \* (0.1)

**Source:** Author's Computation (2024)

The results presented in Table 4 above show the regression results for the study model. It shows the fixed effect regression results for the model since it is more appropriate than random effects after hausman test was conducted. The results indicate that the R<sup>2</sup> value is 0.2307 with an adjusted R<sup>2</sup> of 14%. This means that approximately 23 percent of the total variation in DACC could be attributed to or explained by variation in all of the independent variables. As a result, the F-statistic stood at 2.6568, with a p-value of 0.0002, which was less than 0.05 significant levels. This means that there is a significant relationship between independent variables and dependent variable.

### Discussion of Findings

#### **Audit Committee Independence (ACI) and Discretionary Accrual Model (DACC)**

The regression results presented above show that ACI has a detrimental and significant relationship with DACC. There is a correlation between ACI and DACC with a coefficient of -3.9917 (t-statistic = -1.8646; p<0.1). This implies that a unit change in the ACI while holding other factors constant could enhance FRQ of consumer goods firms by a factor of 399.2% indirectly by reducing

the way earnings are managed via subjective opinion. The result additionally can be understood to mean that while AC decreases earning smoothing via DACC, it improves FRQ. This result is consistent with research by Ormin et al. (2015), Umobong and Ibanichukwu (2017), and Ayinla et al. (2022), who all found a favorable correlation between FRQ and ACI.

#### ***Audit Committee Size (ACS) and Discretionary Accrual Model (DACC)***

Outcome of regression reveal that there is a substantial inverse association between ACS and DACC. Consequently, altering the ACS's units while keeping the other factors same may reduce the need for individual judgment in profit management, which would subsequently improve the FRQ of consumer goods firms by a factor of 85%. As consequence, the more extensive the AC member, the more broad and diverse its collective expertise will become and, consequently, the more productive they are likely to be at work. This outcome is in conformity with the study conducted by Kantudu & Alhassan (2022), which discovered that AC is essential in preventing the development regarding EM. Additionally, Jerry & Saidu (2017) found a substantial negative correlation between an AC's size and an EM practice.

#### ***Shareholders Involvement in Audit Committee (SIAC) and Discretionary Accrual Model (DACC)***

Additionally, the outcome demonstrates that SAIC and DACC have an unfavorable and substantial association. There is a correlation between SIAC and DACC with a coefficient of -3.2044 (t-statistic = -3.2605;  $p < 0.01$ ). This suggests that the presence of EM is reduced by a factor of 320% when shareholders are included in the AC. The owners of the shares in AC have the ability to closely observe the management' operations and thoroughly examine the annual reports because of their passionate need to safeguard their financial stake from misuse. The reason for this is due to the unlikelihood that shareholders will collaborate with executives to manipulate earnings in order to present a scripted achievement at the AGM that supports the manager's financial statements. The agency and resource dependency theories' proven conceptual foundations are supported by the negative connection. This outcome agrees with what Kantudu & Alhassan (2022) found.

### **CONCLUSION AND RECOMMENDATIONS**

In this study, the association between company AC and FRQ of consumer goods companies listed on the Nigerian Exchange Group (NGX) was examined. The study came to the conclusion that ACI, ACS, and SIAC have an important propensity in enhancing the FRQ of public consumer products businesses in Nigeria after taking into account the results of the regression result as previously described. Thus, this study's findings demonstrate the importance of meticulous oversight and effectively utilize organization-limited resource to achieve the trust of the stakeholders of the consumer goods firms in Nigeria on financial reporting. To guarantee appropriate oversight work while establishing a favorable environment during the mandatory audit that encourages a reliable and unbiased position of the annual report, the company's board of executives is supposed to, consequently, make certain the selection of enough AC members who possess sufficient knowledge of finance, including owners. To improve the proficiency and vigilance of AC, it is further suggested that authorities in consumer goods companies take into account the FRCN's 2016 draft of the NCCG, which proposed necessary credentials for professionals. Given the complicated nature of accounting records within Nigeria today,

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particularly in light of the country's adoption of IFRS, this threshold will facilitate a simple evaluation of financial reports.

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