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MODERATING EFFECT OF AUDIT QUALITY ON THE RELATIONSHIP BETWEEN AUDIT COMMITTEE CHARACTERISTICS AND FINANCIAL REPORTING QUALITY OF LISTED INDUSTRIAL GOODS COMPANIES IN NIGERIA

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Abstract
This study examines the moderating effect of audit quality on the relationship between audit committee characteristics and financial reporting quality of listed industrial goods companies in Nigeria. Correlational research design was used. The population of the study was the thirteen (13) quoted industrial goods companies in Nigerian Exchange Group (NGX) as at 31st December 2021, of which all the thirteen (13) companies were taken as the sample size using census sampling technique. The study period was from 2012 to 2021. The technique for data analysis used was regression analysis, this is because the study made use of panel data. Findings revealed that audit committee financial expertise, frequency of audit committee meeting and audit committee independence have significant positive effect on financial reporting quality while audit committee size has an insignificant negative effect on financial reporting quality. Audit quality has a significant positive effect in moderating the relationship between audit committee financial expertise, frequency of audit committee meeting, audit committee independence and financial reporting quality, however, the moderating effect of audit quality on the relationship between audit committee size and financial reporting quality is negative and significant. Board of directors should ensure that audit committee is dominated by members that are knowledgeable on accounting and financial matters. This is because the main responsibility of audit committee is to examine financial report and the inclusion of financially literate members in the audit committee will improve financial reporting quality.
Key words: Financial Reporting Quality, Audit Quality, Big Bath Theory, Audit Committee Characteristics

Introduction

The widespread corporate and accounting scandals have created the need to improve financial information quality (Alexander & Eyesan, 2015). The collapse of companies in the United State such as Enron Corporation, WorldCom, Lehman Brothers, Tyco and American International Group (AIG) inspired US Senator Paul Sarbanes and US Representative Michael G. Oxley to sponsor a bill in 2001 and was passesd in 2002 tagged Sarbanes-Oxley Act 2002. In Nigeria, the Financial Reporting Council (FRC) of Nigeria Act was passed by the national assembly in 2011, the Act empower the council to develop accounting and financial reporting standards, reviews, promotes and enforce standards of accounting, receive notes from third party about non compliance, receive copies of annual financial reports, provide advice to the federal government about accounting and financial reports, maintain professionals' registration in accounting environment and promote standards of accounting issued by International Accounting Standards Board (IASB), in most cases, the (FRC) of Nigeria has in effect, provided adaption of the international standards in Nigeria. The essence of the Sarbanes-Oxley Act 2002 in United State and Financial Reporting Council (FRC) of Nigeria Act of 2011 was to enhance financial reporting quality.

Users of financial statement need a financial statement that has both fundamental qualitative characteristics and enhancing qualitative characteristics, the both serve as the basis for the quality of financial reporting.

Fundamental qualitative characteristics comprises of relevance and faithful representation. Relevance refers to how helpful the information is for financial decision-making processes. For accounting information to be relevant, it must possess: confirmatory value and predictive value. Confirmatory value provides information about past events while predictive value provides predictive power regarding possible future events. Faithful representation posits that accounting reality supersede the legal form, for a transaction to be faithfully represented, it must be complete, neutral and free from error. The enhancing qualitative characteristics are verifiability, timeliness, comparability and understandability.

Namakavarani, Abbas, Davood and Saeed (2021) noted that the existence of an audit committee could be considered as the most appropriate means of protecting the interests of investors on listed firms. The increased debate on corporate governance is to strengthen financial reporting quality through audit committee. Wahhab and Al-Shammari (2021) opined that the primary aim of audit committee is to keep significant surveillance over the financial reporting system of a company. Similarly, Ibunor, Helen and Ogechi (2021) assert that the sole responsibilities of the audit committee is to ensure that the financial statement is prepared in compliance with the regulatory standard, company's internal control system are effective, reviewing of the management analyses on relevant issues in financial reporting and that reports are true and fair from misstatement or inaccuracy. To what extent have such regulations and policies on audit committee characteristics translated to improved financial reporting quality?

In answering this question, it was discovered from the literature review that investors had taken wrong decisions over the years as a result of manager's discretionary accruals in financial statement which has led to weak financial reporting quality. For instance, In Nigeria, elated shareholders of Cadbury Nigeria Plc discovered that company's shares they acquired was based on audited financial statement that was altered and misleading (Ogheneovo, Ifeoma & Nkechi, 2022). Consequently, the factors influencing financial reporting quality have been an intense and inconclusive area of research and an interesting issue of discourse. Furthermore, Plethora of studies has been conducted on financial reporting quality, audit quality and audit committee characteristics. As at when this study was conducted, no study has examined the moderating effect of audit quality on the relationship between audit committee characteristics and financial reporting quality in the context of listed industrial goods companies in Nigeria. For instance, the study of Umobong and Ibanichuka (2017) was on audit committee attributes and financial reporting quality of food and beverage firms in Nigeria. Ibunor, Helen and Ogechi (2021) did a similar study, however, the study was on quoted consumable companies in Nigeria. While other studies such as Adeleke (2021); Kabiru and Usman (2021); Majiyebo, Okpanachi, Nyor, Yahaya and Mohammed (2018) were conducted on the financial sector in Nigeria.

It is against this backdrop that the following research objectives and hypotheses were developed. The main objective of the study therefore is to examine the:

i. Effect of audit committee financial expertise on financial reporting quality of listed industrial goods companies in Nigeria

ii. Effect of frequency of audit committee meeting on financial reporting quality of listed industrial goods companies in Nigeria

iii. Effect of audit committee independence on financial reporting quality of listed industrial goods companies in Nigeria

iv. Effect of audit committee size on financial reporting quality of listed industrial goods companies in Nigeria

v. To examine the moderating effect of audit quality on the relationship between audit committee characteristics (audit committee financial expertise, frequency of audit committee meeting, audit committee independence and audit committee size) and financial reporting quality of listed industrial goods companies in Nigeria

In line with the objectives, the following hypotheses have been formulated in Null form:

Ho_1: Audit committee financial expertise has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria
Ho_2: Frequency of audit committee meeting has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria
Ho_3: Audit committee independence has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria
Ho_4: Audit committee size has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria
$Ho_{5;}$ Audit quality has no significant effect in moderating the relationship between audit committee characteristics (audit committee financial expertise, frequency of audit committee meeting, audit committee independence and audit committee size) and financial reporting quality of listed industrial goods companies in Nigeria

Financial Reporting Quality

According to Idris (2021), financial reporting quality refers to the financial information which is capable of revealing relevant, reliable, comparable and comprehensive information. Similarly, Adeleke (2021) assert that financial reporting quality involves the ability of financial statements to provide information that is fair, appropriate and reliable about the financial position and performance of a company which will not mislead the intended users. Tijjani (2018) opined that financial reporting quality involves the extent to which financial statement is free from errors, misstatements and other unethical accounting and managerial practices. Kariuki and Oluoch (2020) defined financial reporting quality as the availability of all relevant financial information of a company that may influence an investment decision.

Audit Committee Characteristics

Oyedokun, Ojo and Fodio (2020) defined audit committee a special body of experts that regulates and protects the interests of investors in the stock market, corporate owners, managers, staff, vendors, and creditors. The qualities embedded in each of the audit committee member represent audit committee characteristics. Adeleke (2021) state that audit committee is one of the components of corporate governance mechanism and a subsist of board of directors saddled with responsibility of ensuring quality reporting by performing oversight functions of the activities of management and external auditors.

Wahhab and Al-Shammari (2021) postulate that audit committee involves composition of members who are chosen by the board of directors to be responsible for maintaining the independent view of the auditors, ensure the organisiation establishes a thorough risk management process and effective internal controls, review litigation and regulatory proceedings. This implies that the main responsibility of audit committee is to examine financial report with the aim of improving on audit and financial reporting quality. In the same vain, Idris (2021) refer to audit committee as a statutorily corporate governance mechanism introduced to curb financial reporting manipulation in order to enhance the quality of financial reports. However, the effectiveness of the audit committee is dependent on its attributes. The effectiveness of audit committees in overseeing the financial reporting process is found to be largely determined by several audit committee characteristics, including audit committee independence, financial expertise, audit committee meeting and audit committee size.

One of the proxies of audit committee is financial expertise. According to Adeleke (2021), a financial expertise is someone who is certified by a professional accounting body as a certified public accountant. The certified public accountant could be an auditor, chief financial officer, financial controller, or accounting officer with adequate work experience. An independent audit committee member is someone who has no personal or financial connection with the firm or executive managers (Susan, Winrose & Joel, 2017; Bala, Amran, & Shaari (2021). The study of Idris (2021) noted that an independent audit committee member as a person who is not employed by, or providing any services to the organization beyond his or her duties as a committee member. Audit committee meeting involves the coming together of audit committee members to deliberate and scrutinize the audited and unaudited reports, examine internal control and take resolutions over financial matters that will enhance financial reporting quality (Jamil & Puat, 2012; Chaudhry, 2013; Filli, 2019).

Audit Quality

Audit quality according to DeAngelo (1981) is viewed as the use of diligence and due care by external auditor in examining client's accounting records and internal control system, and if the client violates auditing standards and guidelines, the external auditor reports the violation in the annual report. Tobi, Osasrere and Emmanuel (2016) stated that audit quality can be seen as having two essential areas; capacity to uncover errors and misstatements and desire to report them. Thus, audited financial statement with high audit quality should not contain material misstatement.

The study of Wakil, Alifiah and Teru (2020) deduce audit quality as the ability to identify and disclose significant financial statement misrepresentation by the audit firm. The ability to disclose is the core duty of an external auditor. Most studies used Big 4 audit firm, Audit firm rotation and Audit fees as the measurement parameter for audit quality, see (Miettinen, 2008; Bala, 2019; Hasan, Kassim & Hamid, 2020). The emphasis of this study is on audit fees. Audit fee are the monetary payment charged by an auditor for auditing a company's accounts. It is a fee a company pays an external auditor in exchange for performing an audit. The determinants of audit fees include: the type of audit, size of work, size and type of client.

Empirical Review

Audit Committee Financial Expertise and Financial Reporting Quality

Kibiyaa, Ahmada and Amrana (2016) examined the effect of audit committee characteristics on the quality of financial reporting of Nigerian listed firms. The sample size of their study was 101 firms between 2010 to 2014 in which multivariate regression analysis was employed. The proxy for financial reporting quality was accrual quality, while the independent variable, which is, audit committee financial expertise, 1 was allocated if there is a presence of at least 1 financially literate member on the audit committee, otherwise 0. The result revealed a positive and statistically significant effect of financial expertise on quality of financial reporting. This implies that audit committee monitoring mechanisms influence the financial reporting quality of listed non financial firms in Nigeria.

Madawaki and Amran (2013) examined whether audit committees characteristics are associated with an improved financial reporting quality. The sample of the study was 70 listed companies on the Nigerian Stock Exchange between 2009 and 2011. The dependent variable, earnings quality was generated based on the accrual estimation while for audit committee financial expertise, it was the proportion of audit committee members with accounting or financial qualification. Finding showed that audit committee financial expertise has significant association with improved financial reporting quality. Masmoudi (2021) studied the effect of audit committee characteristics on financial reporting quality. The proxy for financial expert in audit committee was the number of financial experts in the audit committee, while for financial reporting quality, real earnings management was used as the proxy. Finding disclosed that the presence of a financial expert in audit committee has negative statistically significant relationship with real earnings management.

The study of Madugba, Howell, Nwanji, Faye, Egbide and Eluyela (2021) examined how audit committee quality affect financial reporting quality of seven deposit money banks in Nigeria. The time frame covered was from 2013 to 2019. The dependent variable which was financial reporting quality was measured using accrual model. In contrast, the independent variable was the number of members on the audit committee with accounting and finance knowledge. From the regression analysis, the number of members on the audit committee with accounting and finance knowledge showed a negative and insignificant effect on financial reporting quality. Dabor and Dabor (2015) studied audit committee characteristics and financial reporting quality. It was discovered from the finding that there is no significant relationship between audit committee financial expertise and financial reporting quality.

Kwame (2022) studied the impact of audit committee attributes on financial reporting quality of firms listed on the Ghana Stock Exchange. One of the attributes from the study was audit committee financial expertise, which was measured using the presence of financial expertise in the audit committee. The measurement for financial reporting quality was discretionary accruals. The study used 90 firm-year observations for the period 2013 to 2015. The regression analysis result indicated that audit committee financial expertise has a statistically positive relationship with financial reporting quality.

The study of Ojeka, Iyoha and Asaolu (2015) was on audit committee financial expertise: antidote for financial reporting quality in Nigeria. The study used fifteen deposit money banks from 2003 to 2012. The number of individuals on the audit committee who are financially literate was used to measure audit committee financial expertise, while reliability (total accrual quality) and relevance (audit report lag) were used as the measurement for financial reporting quality. Analyses were carried out using ordinary least square. They found that financial expertise has a positive significant impact on financial reporting quality in Nigeria.

Dhaliwal, Naiker and Navissi (2006) examined audit committee financial expertise and accruals quality. They investigated the relationship between three types of audit committee financial expertise (accounting, finance and supervisory expertise) on accruals quality and found a significant positive relationship between accounting expertise and accruals quality. Based on three types of audit committee financial expertise, priority should be given to accounting expertise of audit committee members.

Frequency of Audit Committee Meeting and Financial Reporting Quality

Oyedokun, Ojo and Fodio (2020) conducted a study to ascertain the association between audit committee characteristics and financial reporting quality of listed consumer goods firms in Nigeria. This study made use of correlational research design. The study measured financial reporting quality using absolute values of the residuals (discretionary accruals), while for audit committee frequency of meeting, it was measured using the number of times audit committees meet. The population of the study was all the twenty-one (21) consumer goods companies listed on the Nigerian Stock exchange, and the study period was from 2013 to 2018. The study employed multiple regression techniques for data analysis, the result disclosed that audit committee frequency of meeting has positive and significant relationship with financial reporting quality.

Dabor and Dabor (2015) studied audit committee characteristics and financial reporting quality in Nigeria banking sector. A sample of nine banks was selected using the simple random sampling technique for the period of ten years. Data for the selected banks were analyzed by employing ordinary least square regression technique. The result of the study showed that there is a positive relationship between audit committee meetings and financial reporting quality. Kabiru and Usman (2021) carried out a study to ascertain the effect of audit committee characteristics on the financial reporting quality of deposit money banks in Nigeria. The study used correlational research design. The sample size was 15 deposit money banks in Nigeria. Discretionary accrual was used as the proxy for financial reporting quality, while the number of times audit committee held meeting was used as the proxy for frequency of audit committee meeting. The study period was from 2009 to 2019. Data collected were analyzed using multiple regression analysis. Findings from the analysis showed that frequency of audit committee meeting has positive and significant effect on the financial reporting quality of deposit money banks in Nigeria.

The study of Koholga, Babangida and Monica (2015) was on audit committee meeting frequency and financial reporting quality of six listed deposit money banks in Nigeria between 2003 to 2013. Financial reporting quality was proxied by earnings management. The data was analyzed using pearson correlation statistics and ordinary least square regression. The result showed that audit committee meeting frequency has a positive and significant influence on financial reporting quality. Eriabie and Adeyemo (2016) evaluated the impact of frequency of meetings of members of audit committee on financial reporting quality of one hundred and thirty one companies quoted in Nigerian Stock Exchange over the period of 2006 to 2012. The measurement of financial reporting quality was discretionary accruals while for the frequency of meetings was the number of times audit committee meets in a year. The finding from multivariate regression technique revealed that audit committee frequency of meetings has a positive significant influence on financial reporting quality.

Hasan, Kassim and Hamid (2020) studied the effect of audit committee on financial reporting quality. The proxy for audit committee was audit committee meeting. Real earnings management was used as the proxy for financial reporting quality. Finding showed that audit committee meeting has a significant negative effect on real earning management.

Audit Committee Independence and Financial Reporting Quality

Idris (2021) investigated the relationship between audit committee characteristics and financial reporting quality of listed deposit money banks in Nigeria for the period of ten years from 2011 to 2020. The sample size was thirteen deposit money banks in Nigeria. The study used abnormal loan loss provision to measure financial reporting quality because loan loss provision is unique to the banking sector. Proportion of non-executive directors in the audit committee to total number of the audit committee was used to measure audit committee independence. The tool for analysis was multiple regression. Result from the analysis revealed a positive and significant association between audit committee independence and financial reporting quality of the sampled banks.

The study of Mbobo and Umoren (2016) was to ascertain the influence of audit committee attributes on the quality of financial reporting in Nigerian banks. They used ten selected banks for the period 2006 to 2013. The dependent variable of study was the quality of financial reporting which was measured using the International Financial Reporting Standard (IFRS) qualitative characteristics model. Audit committee independence was measured by the proportion of non executive directors on the audit committee. Regression analyses was used in analyzing the data. The result showed that audit committee independence significantly influence the quality of financial reporting in Nigerian banks. Masmoudi (2021) studied effect of audit committee characteristics denoted by independent members in audit committee (the proportion of independent audit committee members) on financial reporting quality (real earnings management). The study made use of from 90 public listed companies on the Amsterdam stock exchange from 2010 to 2019. The technique for data analysis was the ordinary least squares regression. Finding revealed that there is negative statistical significant relationship between independent members in audit committee and real earnings management.

The study of Umobong and Ibanichuka (2017) examined the relationship between audit committee characteristics and financial reporting quality of food and beverage firms in Nigerian Stock Exchange between 2011 and 2014. The proxy for audit committee independence was the proportion of non executive directors in the audit committee while financial reporting quality was measured using relevance (the number of days between the statement of financial position closing date and the signed date of the auditor's report) and reliability (discretionary accruals). The technique for data analysis was ordinary least square. It was discovered from the finding that audit committee independence has positive but statistically insignificant relationship with financial reporting quality. Adeleke (2021) was to ascertain the effect of the audit committee characteristics on the quality of financial report of listed financial institutions in Nigeria. Finding showed that audit committee independence has no significant effect on the quality of financial report.

The study of Wahhab and Al-Shammari (2021) examined the impact of audit committee characteristics on the quality of financial reporting in non-financial firms operating in Iraq. The proxy for audit committee independence was the number of independent directors. The study was done using 170 firms, multiple regression model was used to analyze the data. Result indicated that there is a positive impact of audit committee independence on financial reporting quality. Majiyebo, Okpanachi, Nyor, Yahaya and Mohammed (2018) studied the effect of audit committee independence on financial reporting quality of listed deposit money banks in Nigeria. The study made use of fifteen (15) listed deposit money banks from 2007 to 2016. Absolute value of residuals in discretionary accrual was used to measure financial reporting quality, while, the number of years the audit committee members have served as directors of the firm was used to measure audit committee independence. The data was analyzed using STATA 13. The study revealed that audit committee independence has a negative but significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Audit Committee Size and Financial Reporting Quality

Adeleke (2021) conducted a study to ascertain the effect of the audit committee characteristics on the quality of financial report of listed financial institutions in Nigeria. The study used correlational research design. Market value of firm was used as the proxy for quality of financial report, while the number of audit committee members was used as the proxy for audit committee size. The population size was 57 financial institutions listed on the Nigerian Stock Exchange between 2008 to 2017. A sample size of 40 listed companies was selected using purposive sampling technique. Data was analysed using ordinary least square regression. From the finding, it was discovered that audit committee size has significant effects on the quality of financial report.

Al Shaer, Salama, & Toms, (2017) studied audit committees and financial reporting quality in UK environmental accounting disclosures. They used discretionary accruals (accrual quality) as a proxy to measure financial reporting quality. The proxy for audit committee size was the total number of audit committee members. The sample was all firms continuously listed in the UK FTSE350 between 2007 to 2011. Finding revealed that audit committee size has effect on financial reporting quality. This implies that audit committee quality tends to increase financial reporting quality. The study of Ifeanyichukwu and Ohaka (2019) was conducted to determine whether the quality of financial reporting in consumer goods manufacturing companies quoted in the Nigerian stock exchange is affected by the characteristics of audit committee. They used 15 listed consumer goods manufacturing companies from 2006 to 2016, regression analysis was used to analyse the data. The proxies for financial reporting quality were value relevance of accounting earnings and earnings management, while for audit committee size, it was the total member of audit committee. Result from the analysis revealed that there is a significant positive relationship between audit committee size and accounting value relevance of earnings.

The study of Ibunor, Helen and Ogechi (2021) was on audit committee characteristics and quality of financial statement of thirteen (13) consumable firms quoted in the Nigerian stock market using the Ex-post facto research design. The dependent variable quality of financial statement was measured using the Beneish M-score model while the independent variable which was the audit committee size was measured using the total number of audit committee members. Data was analyzed using ordinary least square. The result showed that audit committee size has a positive and insignificant relationship with the quality of financial statement. Kariuki and Oluoch (2020) studied effect of audit committee size on financial reporting quality of firms listed in Nairobi securities exchange. The sample size was 62 listed firms between 2014 to 2018. The ratio of total number of financial reporting made to total financial reporting was used to measure financial reporting quality, while the number of audit committee members was used as the measurement of audit committee size. Regression analysis was used on data analysis, the result revealed that audit committee size has a positive and significant effect on financial reporting quality.

Samuel, Mudzamir and Mohammad (2017) examined the relationship between audit committee size and financial reporting quality in Nigeria. The study was performed using a sample of 189 companies between 2011 to 2015. Dichotomous variable 1 was assigned, if an item is in a checklist drawn from the financial statement, otherwise 0 was used to measure financial reporting quality, while for audit committee size, total numbers of audit committee members to numbers of directors. Panel data regression was adopted and it was found that audit committee size has a positive and significant relationship with financial reporting quality.

Tanko and Siyanbola (2019) investigated the effect of audit committee on financial reporting quality of some selected listed firms in the Nigerian Stock Exchange during the period 2009 to 2018. Ex-post facto research design and the census sampling technique were used to arrive at the sample that comprises three (3) conglomerate firms and nine (9) oil and gas firms. The study used the Modified Jones model of discretionary accrual to represent the financial reporting quality while the number of audit committee members was used for audit committee size. From the multiple regression analysis, it was discovered that audit committee size has a negative significant effect on financial reporting quality. Oyedokun, Ojo and Fodio (2020) interrogated the association between audit committee characteristics and financial reporting quality of listed consumer goods firms in Nigeria. This study made use of correlational research design. Result from the study showed that audit committee size has no significant relationship with the financial reporting quality.

Moderating effect of audit quality on the relationship between audit committee characteristics and financial reporting quality

The study of Bala (2019) examined the mediating effect of audit quality proxied by audit fees and Big 4 auditors on the relationship between the audit committee characteristics and financial reporting quality of listed companies in Nigeria. The study employed 88 firms listed in Nigerian Stock Exchange for five years ranging from 2012 to 2016. A multiple regression was employed. Finding revealed that audit fees partially and significantly mediate the relationships amongst audit committee size, audit committee financial expertise, frequency of audit committee meeting and financial reporting quality.

The study of Hasan, Kassim and Hamid (2020) examined the moderating effect of audit quality and audit committee on financial reporting quality. Data were collected from 814 quoted companies in Bursa Malaysia from 2013 to 2018. Financial reporting quality was measured using real earnings management, audit quality was measured using Big 4 audit firms, while the study used the yearly number of audit committee meetings in the sampled firm to measure audit committee meeting, the ratio of independent audit committee members was used to measure audit committee independence, the total number of members on the audit committee was used to measure audit committee size, total number of audit committee members with financial and accounting background was used to measure audit committee financial accounting expert. Big 4 audit firm is found to significantly moderate the relationship between audit committee meetings, audit committee independence, audit committee size, audit committee financial accounting expert and real earnings management.

Miettinen (2008) evaluated the effect of audit quality on the relationship between audit committee effectiveness and financial reporting quality. Causal steps method, a series of multiple regression analyses was employed for a sample of S&P (Standard & Poor's) 1500 firms which had their fiscal years ending during the calendar year 2006. In addition, the Sobel test statistics was calculated to examine the significance of the mediated variable. Audit committee size, audit committee expertise ratio and audit committee meeting frequency represented audit committee effectiveness. Financial reporting quality was measured by discretionary accruals, while audit quality was measured using audit fees paid to the incumbent auditor. Finding disclosed that audit committee meeting frequency has both a direct effect as well as mediated effect through audit fees on discretionary accruals.

Mardessi (2022) did a study on audit committee and financial reporting quality: the moderating effect of audit quality. The study used sample size of 90 non-financial companies that were listed in Amsterdam stock exchange between 2010 to 2017. The technique for data analysis was ordinary least squares. The proxy for financial reporting quality was real earnings management. It was discovered that audit committee independence, audit committee financial expert and audit committee size have statistically significant relationship with real earnings management. However, the effect of audit committee meetings on real earnings management is not significant. Finally, audit quality moderates the relationship between audit committee and financial reporting quality.

Theoretical Framework

The Big Bath Theory

The applicable theory to this study is the big bath theory. The theory explains how audit quality moderates the relationship between audit committee characteristics and financial reporting quality. This theory postulate that a firm that encounters decline in the current year profit will use discretionary accruals to even further decrease the current year profit. Big bath theory was developed by Pastena between 1972 to 1974. Before this period big bath was used by firms without any empirical evidence to justify the theory. Excessive losses may be reported by managers intentionally within an accounting year end, the essence is to reduce anticipated losses in the future years. Big bath theory is germane because it exposes the causes of earnings management, and the techniques managers use to achieve their desired earnings. Tokuga and Yamashita (2011) argued that big bath involve an attempt by managers to recognize future unpleasant or unfavorable financial outcome in the current accounting profit, for instance, a firm may have an anticipated future expenses that could impact on the future profit negatively, the use of big bath accounting will recognize it immediately, the implication is that current profit will reduce while there will be an increase in the future profit.

Managers recognizes future expenses in the current financial statement with the intention of reporting low profit for the current year, and high profit for future years, it will be unchallenging for managers to achieve targets in the future if large proportion of expenses are recognized now in the financial statement. Big bath accounting is done with the use of accruals (Stahl & Appelkvist, 2014). It refers to accounting choices made by management to reduce current reported earnings in order to increase future earnings. Managers tend to take advantage of the relationship it has with the shareholders based on the performance reward plan. Managers that could not meet the expected profit target will want to manipulate the profit using the flexibility of accounting methods to attain the targeted profit, this shows that managers are opportunistic.

Karlsson and Reimbert (2015) used three scenarios to explain big bath accounting, the first is that a firm could further decrease its profit when the firm faces financial difficulties, this is done by the recognition of total expenses that spans over period of years in the current financial statement as against the proportion of each year. Subsequent years profit will increase because some expenses had already been written off previously, in this way, the financial results is influenced, future financial results will look more positive than previous financial results. The authors argued that there is an association between big bath and decline in profit. Secondly, big bath is used if a firm decides to change its Chief Executive Officer (CEO). The new CEO will use big bath to reduce current earnings in other to have an immense earnings in the future. Finally, a firm could defer or postpone the recognition of current revenue items, so that it will be reported in the subsequent years.
The significance of big bath theory to financial reporting quality is that it explains how managers use discretionary accruals to manipulate profit for the year, this affect financial reporting quality. Investors make use of the financial statement to make investment decision, if profit is manipulated as a result of earnings management, it is highly probable that an investor will make a wrong investment decision, hence the need to know about big bath theory and earnings management techniques is inevitable.

Research Methodology
This study adopts correlational research design. The population of this study was the thirteen (13) quoted industrial goods companies in Nigerian Exchange Group (NGX) as at 31st December 2021, of which all the thirteen (13) companies were taken as the sample size using census sampling technique. The study period was from 2012 to 2021. The study used secondary data and the source of data was from the annual report of the sample companies. The technique for data analysis used was regression analysis, this is because the study made use of panel data.

Model specification
This study adopts modified Jones model to measure discretionary accruals, below is the model
Modified Jones Model
$TOA/A_{(r-1)} = \beta_1 (1/A_{r-1}) + \beta_2 (\Delta \text{ in Rev} - \Delta \text{ in Rec}) /A_{r-1}) + \beta_3 (PPE/A_{r-1}) + \epsilon_{it}$
TOA = Income generated from operations – inflow from cash.

Where:
TOA = represents the total accruals
Air-1 = measures total assets at the commencement of the year
Δ Revir = difference in revenue from year r-1 to r
Δ Recir = difference in receivables from year r-1 to r
PPEir = represents the total value of plant, property and equipment
β1, β2, β3 = denote audit quality variables.
ϵ = denote discretionary accruals.

The model below represents the regression equation used in this study

$DAC_{it} = F(ACFE_{it}, FACM_{it}, ACID_{it}, ACSI_{it}, \mu_{it})$.. (1)
The above model can also be written as
$DAC_{it} = \beta_0 + \beta_1 ACFE_{it} + \beta_2 FACM_{it} + \beta_3 ACID_{it} + \beta_4 ACSI_{it} + \mu_{it}$...................................(2)
DAC = TOA - NDA
Where
DAC = Discretionary accruals
TOA = Total Accruals
NDA = Non Discretionary Accruals
ACFE = Audit Committee Financial Expertise
FACM = Frequency of Audit Committee Meeting
ACID = Audit Committee Independence
ACSI = Audit Committee Size
AF = Audit Fees
FRQ = Financial Reporting Quality
β = coefficient of the parameter
it = Time coefficient
μ = error term

Table 1: Dependent and independent variables with the measurement parameters

Variable	Variable Type	Measurement Parameters	Sources
FRQ	Dependent	Discretionary accruals (DAC)	Kwame (2022), Majiyebo, Okpanachi, Nyor, Yahaya and Mohammed (2018), Al Shaer, Salama, & Toms, (2017), Tanko and Siyanbola (2019)
ACFE	Independent	1 if one or more audit committee members have financial expertise, otherwise 0.	Kibiyaa, Ahmada and Amrana (2016)
FACM	Independent	the number of times audit committee hold meeting	Kabiru and Usman (2021), Eriabie and Adeyemo (2016), Oyedokun, Ojo and Fodio (2020)
ACID	Independent	Proportion of non-executive directors to total number of the audit committee	Mbobo and Umoren (2016), Idris (2021), Umobong and Ibanichuka (2017)
ACSI	Independent	The total number of audit committee members	Ibunor, Helen and Ogechi (2021), Adeleke (2021), Ifeanyichukwu and Ohaka (2019), Kariuki and Oluoch (2020)
AF	Moderating	Natural log of audit fees paid by clients	Miettinen (2008), Bala (2019)

Source: Author's Compilation (2022)

Diagnostic Tests

This study conducted diagnostic test, the test include Hausman test for fixed effect and random effect, normality test, Variance Inflation Factor and Heteroskedasticity test.

Table 2: Descriptive Statistics

	FRQ	ACFE	FACM	ACID	ACSI
Mean	5.824308	0.734494	0.820292	4.900000	0.861538
Median	5.816380	0.731720	0.811064	4.500000	1.000000
Maximum	6.735726	0.839345	0.924794	9.000000	1.000000
Minimum	4.239700	0.611664	0.663103	1.000000	0.000000
Std. Dev.	0.472429	0.057249	0.073075	2.477339	0.346720
Skewness	-0.353817	0.165810	-0.467881	0.114979	-2.093546
Kurtosis	3.233935	1.932253	2.429915	1.920446	5.382937
Jarque-Bera	3.008808	6.771135	6.503509	6.599217	125.7216
Probability	0.222150	0.033858	0.038706	0.036898	0.000000
Sum	757.1600	95.48418	106.6380	637.0000	112.0000
Sum Sq. Dev.	28.79143	0.422792	0.688848	791.7000	15.50769
Observations	130	130	130	130	130

Source: Eviews 10 output

The above table shows the descriptive statistics.

Table 3: Correlation Matrix

	FRQ	ACFE	FACM	ACID	ACSI
FRQ	1.000000				
ACFE	-0.108993	1.000000			
FACM	-0.149145	0.905072	1.000000		
ACID	0.188355	0.186241	0.187586	1.000000	
ACSI	0.062515	0.019139	0.089404	0.074005	1.000000

Source: Eviews 10 output

The correlation matrix did not show any high relationship.

Table 4: Variance Inflation Factors

Variance Inflation Factors			
Date: 09/07/22 Time: 12:33			
Sample: 1 130			
Included observations: 130			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
ACFE	2.842436	945.0601	5.663129
FACM	1.755887	729.4961	5.699793
ACID	0.000279	5.152528	1.042488
ACSI	0.014154	7.470222	1.034338
C	0.283946	173.9476	NA

Source: Eviews 10 output

Multicollinearity test is to check whether there is effect between the independent variables which can mislead the result of the study. The result substantiates the absence of multicollinearity between the independent variables with the use of Variance Inflation Factors (VIF). Since the centered VIF is less than 10, what this means is that there is no multicollinearity between the exogenous variables (Al Shaer, Salama, & Toms, 2017).

Table 5: Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	3.069647	Prob. F(4,125)	0.1189
Obs*R-squared	11.62757	Prob. Chi-Square(4)	0.1503
Scaled explained SS	17.62644	Prob. Chi-Square(4)	0.1715

Source: Eviews 10 output

Table 5 above represents the heteroskedasticity test, this test is conducted to check whether the variability of error is constant or not. One of the assumptions of linear regression is that there must be constant variance. The Breusch-Pagan-Godfrey test was employed to check whether this assumption was violated or not. The result revealed that the probability of chi-square 0.1503 (15.03%) which is insignificant at 5% level of significance indicate the absence of heteroskedasticity as the probability of the chi square is more than 5%. This implies that the variability of error will not affect the results.

Table 6: Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.920243	4	0.0304

Source: Eviews 10 output

Hausman test assist to choose between fixed effect and cross section random effect from the ordinary least square regression. If the probability is below 5%, use fixed effect, otherwise use the cross section random effect. The result suggests that the fixed effect regression model is most appropriate for the sampled data because the Hausman test Prob. value is less than 5%.

Table 7: Panel Least Squares

Dependent Variable: FRQ				
Method: Panel Least Squares				
Date: 09/07/22 Time: 12:33				
Sample: 2012 2021				
Periods included: 10				
Cross-sections included: 13				
Total panel (balanced) observations: 130				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACFE	0.492541	0.307681	1.600817	0.0122
FACM	0.686713	2.224191	0.308747	0.0411
ACID	0.039402	0.018316	2.151223	0.0336
ACSI	-1.111634	2.201066	-0.505043	0.6145
C	6.586689	1.659363	3.969408	0.0001
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.374680	Mean dependent var		5.824308
Adjusted R-squared	0.286139	S.D. dependent var		0.472429
S.E. of regression	0.399157	Akaike info criterion		1.122468
Sum squared resid	18.00387	Schwarz criterion		1.497453
Log likelihood	-55.96039	Hannan-Quinn criter.		1.274837
F-statistic	4.231713	Durbin-Watson stat		2.344921
Prob(F-statistic)	0.000000			

Source: Eviews 10 output

The F-statistic examines the overall significance of the regression model including all the variables. Therefore, by examining the overall fit and significance of the model, it could be observed that the model has a better fit since the probability F-statistic value of 0.00 is less than 0.05. The adjusted R-square of 0.29 indicates that 29% variation in financial reporting quality is explained by the variables captured in the study, while only 71% is explained by other variables not included in the model.

The panel least squares result for the sampled industrial goods companies in Nigeria as presented in table 7 above showed that there is a positive effect between audit committee financial expertise and financial reporting quality as explained by the coefficient of 0.49. The t-statistic is 1.60. Table 7 further revealed that audit committee financial expertise has a significant effect on financial reporting quality based on a Prob. value of 0.01. This result implies that high audit committee financial expertise will enhance financial reporting quality of the sampled firms in Nigeria.

From the empirical evidence of audit committee financial expertise, the study reject the null hypothesis of the study that states that audit committee financial expertise has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria and accept the alternative hypothesis that states that audit committee financial expertise has significant effect on financial reporting quality of listed industrial goods companies in Nigeria. This finding is consistent with the result of Kibiyaa, Ahmada and Amrana (2016); Madawaki and Amran (2013) who found a positive and significant effect of audit committee financial expertise on financial reporting quality.

There is a positive effect of frequency of audit committee meeting on financial reporting quality that is significant at 5% based on the coefficient and t-statistic of 0.69 and 0.31 respectively. The Prob. value is 0.04. This means that if audit committee members hold meetings as prescribed by the law, this will enhance financial reporting quality of listed industrial goods companies in Nigeria. From the result, the null hypothesis of the study which states that there is no significant effect of frequency of audit committee meeting on financial reporting quality of listed industrial goods companies in Nigeria is rejected. This finding is in line with those of Oyedokun, Ojo and Fodio (2020); Dabor and Dabor (2015); Kabiru and Usman (2021), they documented evidence of how frequency of audit committee meeting affects financial reporting quality of firms.

Table 7 further reported a positive effect between audit committee independence and financial reporting quality that is significant at 5% based on the coefficient and t-statistic of 0.04 and 2.15 respectively. The Prob. value is 0.03. This result suggests that as the proportion of non-executive directors increases in the audit committee, it strengthen financial reporting quality of sampled firms in Nigeria. From the result, the null hypothesis of the study which states that audit committee independence has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria is rejected. This result is consistent with the finding of Idris (2021); Mbobo and Umoren (2016); Wahhab and Al-Shammari (2021), they documented that there is a positive and significant effect of audit committee independence on financial reporting quality.

Finally, audit committee size showed a negative and statistically insignificant effect on financial reporting quality. The coefficient is -1.11 and t-statistics is -0.51. The Prob. value of 0.61 is higher than 0.05, hence the study accepted the null hypothesis that state that audit committee size has no significant effect on financial reporting quality of listed industrial goods companies in Nigeria. This signify that the number of audit committee members do not affect financial reporting quality. This finding is consistent with the finding of Oyedokun, Ojo and Fodio (2020) who documented an insignificant effect of audit committee size on financial reporting quality.

Table 8: Moderating effect of audit quality on the relationship between audit committee characteristics and financial reporting quality

Dependent Variable: FRQ				
Method: Panel Least Squares				
Date: 09/13/22 Time: 08:06				
Sample: 2012 2021				
Periods included: 10				
Cross-sections included: 13				
Total panel (balanced) observations: 130				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AQ*ACFE	0.145080	0.019143	7.578876	0.0000
AQ*FACM	0.308799	0.149310	2.068176	0.0409
AQ*ACID	5.027759	44.81684	0.112185	0.0109
AQ*ACSI	-0.103094	0.022908	-4.500339	0.0000
C	0.099264	0.264332	0.375529	0.7080
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.899634	Mean dependent var		0.664963
Adjusted R-squared	0.885423	S.D. dependent var		0.325402
S.E. of regression	0.110146	Akaike info criterion		-1.452628
Sum squared resid	1.370932	Schwarz criterion		-1.077643
Log likelihood	111.4208	Hannan-Quinn criter.		-1.300259
F-statistic	63.30522	Durbin-Watson stat		0.913821
Prob(F-statistic)	0.000000			

The adjusted R-square of 0.89 from the second panel least squares regression indicates that 89% variation in financial reporting quality is explained by the variables captured in the study, while only 11% is explained by other variables not included in the model. This implies that 89% variation on financial reporting quality is as a result of the combination of both audit committee characteristics and audit quality which is the moderating variable. The increase of the adjusted R-square in table 8, in comparison with that of table 7, justifies the inclusion of audit quality as the moderating variable.

Table 8 revealed that audit quality measured by audit fees has a positive and significant moderating effect on the relationship between audit committee financial expertise and financial reporting quality of listed industrial goods companies in Nigeria, this is because the coefficient is 0.15, t-statistic is 7.58 and the Prob. value is 0.00. This implies that audit quality moderate the relationship between audit committee financial expertise and financial reporting quality. The null hypothesis that states that audit quality has no significant effect in moderating the relationship between audit committee financial expertise and financial reporting quality of listed industrial goods companies in Nigeria is rejected. This finding is in line with the studies of Bala (2019); Hasan, Kassim and Hamid (2020).

Table 8 reported that audit quality has a positive and significant moderating effect on the relationship between frequency of audit committee meeting and financial reporting quality of listed industrial goods companies in Nigeria. From the finding, the coefficient and t-statistic are 0.31 and 2.07 respectively, while the Prob. value is 0.40. From the result, it signifies that audit quality moderate the relationship between frequency of audit committee meeting and financial reporting quality. The null hypothesis that states that audit quality has no significant effect in moderating the relationship between frequency of audit committee meeting and financial reporting quality of listed industrial goods companies in Nigeria is rejected. This finding is consistent with the finding of Miettinen (2008); Bala (2019).

According to table 8, the moderating effect of audit quality on the relationship between audit committee independence and financial reporting quality of listed industrial goods companies in Nigeria is positive and significant. The coefficient is 5.03, t-statistic is 0.11 with a Prob. value of 0.01. This result means that audit quality moderate the relationship between audit committee independence and financial reporting quality. The null hypothesis that states that audit quality has no significant effect in moderating the relationship between audit committee independence and financial reporting quality of listed industrial goods companies in Nigeria is rejected. This result is in line with the finding of Kassim and Hamid (2020).

Finally, from table 8, the result revealed a coefficient of -0.10, t-statistic of -4.50 and Prob. value of 0.00 which signifies that the moderating effect of audit quality on the relationship between audit committee size and financial reporting quality of listed industrial goods companies in Nigeria is negative and significant. This suggests that audit quality moderate the relationship between audit committee size and financial reporting quality. The null hypothesis that states that audit quality has no significant effect in moderating the relationship between audit committee size and financial reporting quality of listed industrial goods companies in Nigeria is rejected. This finding is consistent with the finding of Mardessi (2022).

Conclusion and Recommendations

Based on the findings discussed above the study concludes that:

Audit committee financial expertise has a significant positive effect on financial reporting quality of listed industrial goods companies in Nigeria. This signifies that the inclusion of financially literate members in the audit committee will improve financial reporting quality.

Frequency of audit committee meeting has a significant positive effect on financial reporting quality of listed industrial goods companies in Nigeria. This depicts that the more audit committee holds its statutory meeting, the higher the quality of financial report.

Audit committee independence has a significant positive effect on financial reporting quality of listed industrial goods companies in Nigeria, indicating that the presence of non-executive directors enhance financial reporting quality.

Audit committee size has an insignificant negative effect on financial reporting quality of listed industrial goods companies in Nigeria. This depicts that audit committee size is not relevant to financial reporting quality.

Audit quality has a significant positive effect in moderating the relationship between audit committee financial expertise, frequency of audit committee meeting, audit committee independence and financial reporting quality of listed industrial goods companies in Nigeria, however, the moderating effect of audit quality on the relationship between audit committee size and financial reporting quality is negative and significant.

Based on the conclusion of this study, the following recommendations were made:

Board of directors should ensure that audit committee is dominated by members that are knowledgeable on accounting and financial matters. This is because the inclusion of financially literate members in the audit committee will improve financial reporting quality. Since the main responsibility of audit committee is to examine financial report, it is pertinent that majority or even all of the audit committee members do have financial prowess. Audit committee must comply with the number of meeting that audit committee must hold annually, this is because more meetings will avail audit committee the opportunity to discover discretionary accruals by managers.

In other to strengthen audit committee independence, the proportion of non-executive directors to total number of the audit committee must be significant, this is because, audit committee independence tend to improve financial reporting quality. Audit committee size is immaterial to financial reporting quality if the members are not able to carryout their primary responsibilities as audit committee members. Finally, audit committee should ensure that audit firm hired has the knowledge, ability, skill and experience to carryout audit assigned and that the external auditor should be well remunerated, this is because, audit fees have moderating effect on the relationship between audit committee characteristics and financial reporting quality.

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