

Audit Committee Characteristics and Financial Reporting Quality of Non-Financial Firms in Nigeria

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Abstract

This study investigates the relationship between audit committee characteristics and financial reporting quality of oil and gas firms in Nigeria. Specifically, it examines the effects of audit committee size, number of meetings and gender diversity on auditor size, used as a proxy for financial reporting quality. An ex-post facto research design was adopted, covering a ten-year period from 2015 to 2024. Secondary data were collected from the annual reports and accounts of five purposively selected oil and gas firms listed on the Nigeria Exchange Group (NGX). Descriptive statistics and Pearson correlation analysis were employed to test the hypotheses. The results indicate that audit committee size exhibits a weak negative relationship with auditor size ($r = -0.1846$; 18%), suggesting limited influence on financial reporting quality. The number of audit committee meetings shows a weak positive relationship with auditor size ($r = 0.3858$; 39%), indicating minimal impact on auditor selection. In contrast, audit committee gender diversity demonstrates a moderately strong and positive relationship with auditor size ($r = 0.5392$; 54%), highlighting its meaningful contribution to enhancing financial reporting quality. The findings suggest that among the audit committee attributes studied, gender diversity significantly influences the choice of high-quality auditors in Nigeria's oil and gas sector. The study recommends that firms optimize audit committee composition by maintaining the statutory five-member size, ensuring regular and purposeful meetings, and promoting gender diversity, with at least 40% female representation, to strengthen oversight, governance, and reliability of financial reporting. These insights contribute to the understanding of governance mechanisms that enhance audit quality and inform policy and managerial practices within Nigeria's non-financial sector.

Keywords: Audit Committee, Audit Committee Size, Audit Committee Gender Diversity, Number of Audit Committee Meetings, Auditor Size, Financial Reporting Quality, Oil and Gas Sector, Nigeria

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Introduction

Financial reporting remains one of the most critical mechanisms through which corporations communicate their financial performance, position, and future prospects to stakeholders. High-quality financial reporting enhances transparency, accountability, and investor confidence by providing reliable information that enables stakeholders to assess the effectiveness with which organizations utilize their economic resources and meet their financial obligations (Herath & Albarqi, 2017). In modern capital markets where investors rely heavily on publicly disclosed information for decision-making, the credibility and reliability of financial reports are fundamental to sustaining market efficiency and corporate legitimacy.

However, the increasing complexity of corporate operations and the separation of ownership from management have intensified concerns regarding the integrity of financial reporting. In many organizations, managerial discretion over financial information creates opportunities for opportunistic behavior and earnings manipulation aimed at achieving personal or organizational goals. The pursuit of private benefits by corporate managers has therefore contributed to a growing incidence of financial misrepresentation, accounting irregularities, and corporate fraud across global markets (Omolorun & Abilogun, 2017). These practices undermine stakeholder confidence and expose weaknesses in internal control mechanisms designed to safeguard the reliability of financial information.

The global corporate environment has witnessed several high-profile financial scandals that have raised serious questions regarding the effectiveness of corporate governance mechanisms in ensuring financial reporting quality. Cases such as those involving large multinational corporations have demonstrated that weak governance structures can allow management to manipulate financial reports, conceal liabilities, and distort corporate performance. These developments have prompted regulators, investors, and international financial institutions to demand stronger governance frameworks capable of improving transparency, strengthening oversight, and restoring confidence in financial reporting systems (Alzeban, 2018).

Corporate governance therefore plays a pivotal role in enhancing the credibility of financial information and protecting the interests of diverse stakeholders. Governance structures provide the institutional framework through which corporate activities are monitored and controlled, ensuring that management actions align with shareholder interests while also safeguarding the rights of other stakeholders such as creditors, regulators, and employees. Effective governance systems establish accountability mechanisms that reduce information asymmetry between corporate managers and investors, thereby improving the reliability and usefulness of financial disclosures (Hashmi et al., 2019).

Among the key governance mechanisms designed to enhance financial reporting quality is the audit committee. The audit committee serves as an important oversight body responsible for monitoring the integrity of financial statements, overseeing the external audit process, and strengthening internal control systems within organizations. By acting as an intermediary between management, internal auditors, and external auditors, the audit committee contributes significantly to improving the transparency and credibility of financial reports. The effectiveness of this committee is therefore widely recognized as a crucial determinant of the reliability of corporate financial disclosures (Hassan et al., 2017).

The quality of financial reporting is also influenced by the effectiveness of the auditing process itself. External auditors provide independent assurance regarding the accuracy and fairness of financial statements, thereby enhancing the confidence of investors and regulators. However, the effectiveness of auditing largely depends on the strength of governance structures overseeing the audit process. Where auditing mechanisms are weak or poorly monitored, there is a greater likelihood that managers may engage in opportunistic financial reporting practices such as earnings management and abnormal accrual manipulation (Ahmed & Dulleman, 2011). Such practices distort the true financial position of firms and make future earnings and cash flow predictions unreliable, thereby reducing the overall quality of financial reporting (Hashmi et al., 2019).

In this regard, the characteristics of the audit committee play a significant role in determining its effectiveness as a monitoring mechanism. Attributes such as the size of the committee, the level of independence of its members, gender diversity, and the frequency of committee meetings influence the committee's ability to exercise effective oversight over financial reporting processes. A well-structured audit committee is more likely to challenge management decisions, strengthen internal control mechanisms, and ensure that financial statements accurately reflect the economic reality of the organization. These structural characteristics therefore serve as governance tools for reducing information asymmetry and limiting managerial opportunism in financial reporting (Wakil et al., 2020).

In emerging economies such as Nigeria, concerns regarding financial reporting quality have become increasingly prominent due to recurring cases of corporate governance failures and financial misstatements in several sectors of the economy. The oil and gas sector, which represents one of the most strategically important industries in Nigeria, plays a critical role in generating national revenue, attracting foreign investment, and supporting economic development. Given the economic significance of this sector, the credibility of financial information disclosed by oil and gas firms is of paramount importance to regulators, investors, and other stakeholders.

Despite regulatory frameworks designed to strengthen corporate governance practices, concerns persist regarding the effectiveness of governance mechanisms in ensuring financial reporting quality among Nigerian firms. Weak enforcement of governance regulations, managerial dominance in decision-making, and inadequate monitoring structures continue to create opportunities for financial reporting manipulation. These challenges underscore the need to critically examine how governance mechanisms—particularly audit committee characteristics—contribute to improving the reliability and credibility of financial reports within the Nigerian corporate environment.

Against this backdrop, this study examines the relationship between audit committee characteristics and financial reporting quality of oil and gas firms in Nigeria. By focusing on specific structural attributes of audit committees, the study seeks to provide empirical insights into how governance mechanisms can strengthen financial reporting transparency and improve corporate accountability within one of Nigeria's most economically significant sectors

Statement of the Problem

The annual report of a company represents one of the most important sources of financial information available to users such as investors, lenders, creditors, regulators, and other stakeholders for decision-making purposes. Ideally, financial reports are expected to be credible, reliable, relevant, and faithfully represent the economic realities of the reporting entity. Such reports should provide complete, timely, transparent, and unbiased information that allows users to evaluate corporate performance and make informed economic decisions.

However, in recent decades, several corporate failures and accounting scandals across the world have raised serious concerns regarding the credibility and reliability of financial reports. High-profile cases of earnings manipulation, financial misstatements, and fraudulent reporting have significantly undermined stakeholders' confidence in published financial statements. These incidents have exposed weaknesses in the monitoring mechanisms responsible for ensuring the integrity and transparency of financial reporting processes within organizations.

One major explanation for these financial reporting irregularities lies in the separation of ownership and control as explained by agency theory. According to agency theorists, managers (agents) may sometimes pursue personal interests that conflict with those of shareholders (principals). This conflict often results in opportunistic behaviors such as earnings management, manipulation of accounting figures, and the deliberate misrepresentation of financial performance. Consequently, the reliability of financial reports becomes questionable when effective monitoring and governance mechanisms are absent or weak.

To mitigate these agency problems and enhance the credibility of financial reporting, corporate governance frameworks have emphasized the role of board oversight, particularly through board sub-committees such as the audit committee. The audit committee is expected to strengthen the financial reporting process by overseeing internal controls, supervising the external audit function, and ensuring compliance with financial reporting

standards. Characteristics of the audit committee such as independence, size, financial expertise, and frequency of meetings are often regarded as important mechanisms capable of improving the quality of financial reporting and reducing information asymmetry between management and stakeholders.

Despite the introduction of corporate governance codes and regulatory reforms aimed at strengthening audit committee effectiveness in Nigeria, concerns still persist regarding the quality of financial reporting among non-financial firms, particularly within the oil and gas sector. Cases of financial misstatements, earnings management, and weak disclosure practices continue to raise questions about the effectiveness of audit committees in safeguarding the integrity of corporate financial reports.

Despite the establishment of corporate governance frameworks in Nigeria, concerns remain regarding whether the structural characteristics of audit committees actually enhance financial reporting quality within oil and gas firms. The extent to which audit committee attributes such as independence, size, financial expertise, and meeting frequency influence the credibility and transparency of financial reports remains an empirical issue requiring further investigation. Consequently, this study examines the relationship between audit committee characteristics and financial reporting quality of oil and gas firms in Nigeria.

Objectives of the Study

The main objective of this study is to examine the relationship between audit committee characteristics and financial reporting quality of non-financial firms in Nigeria.

The specific objectives are to:

- i Examine the relationship between audit committee size and auditor size of non-financial firms in Nigeria.
- ii Evaluate the relationship between the number of audit committee meetings and auditor size of non-financial firms in Nigeria.
- iii Determine the relationship between audit committee gender diversity and auditor size of non-financial firms in Nigeria.

Research Questions

In line with the objectives of the study, the following research questions are addressed:

- i What relationship exists between audit committee size and auditor size of non-financial firms in Nigeria?
- ii What relationship exists between the number of audit committee meetings and auditor size of non-financial firms in Nigeria?
- iii What relationship exists between audit committee gender diversity and auditor size of non-financial firms in Nigeria?

Statement of Hypotheses

The following null hypotheses were formulated and tested in this study:

- i. Audit committee size has no significant relationship with auditor size of non-financial firms in Nigeria.
- ii. The number of audit committee meetings has no significant relationship with auditor size of non-financial firms in Nigeria.
- iii. Audit committee gender diversity has no significant relationship with auditor size of non-financial firms in Nigeria.

Scope of the Study

This study covers a ten-year period from 2015 to 2024. The study focuses on five firms in the oil and gas sector listed on the Nigerian Exchange Group (NGX) as at 1st January 2023. The selected firms include MRS Oil Nigeria Plc, Total Energies Marketing Nigeria Plc, Conoil Plc, Japaul Gold and Ventures Plc, and Ardova Plc. The study examines specific

audit committee characteristics, namely audit committee size, number of audit committee meetings, and audit committee gender diversity as the independent variables. Auditor size serves as the dependent variable and is used as a proxy for financial reporting quality.

Review of Related Literature

Conceptual Review

Audit Committee

According to the recommendations of the American Institute of Certified Public Accountants (AICPA) in 1967, the establishment of an audit committee was proposed to assist the financial reporting process (Bandiyono, 2019). The audit committee is an integral part of the corporate governance mechanism aimed at implementing good corporate governance to help companies achieve their objectives. It is considered one of the most important corporate governance committees and has been extensively studied in developed countries (Bandiyono, 2019). The presence of an audit committee enhances the independence of the internal audit function, enabling it to effectively fulfill its responsibilities (Ho & Kang, 2013). In Nigeria, the establishment of an audit committee is mandatory for all listed firms and serves as a corporate governance mechanism responsible for ensuring quality reporting and supervising management activities and external auditors (Enofe et al., 2013).

Robinson and Owen-Jackson (2009) define the audit committee as consisting of selected company members who actively oversee accounting and financial reporting policies and practices. Its establishment as part of the corporate governance structure is crucial for promoting good corporate governance, enhancing financial reporting integrity, and providing objective advice on risk, control, and governance issues to the board of directors. Traditionally, the primary role of the audit committee has been to monitor the integrity of financial statements prepared by management. However, in recent times, its role has expanded to include oversight of quarterly financial reports, reflecting its increasing involvement in corporate reporting matters (Robinson & Owen-Jackson, 2009). Given the significant corporate collapses and failures, it is essential that audit committees are taken seriously in every corporate organization (Owolabi & Dada, 2011).

Audit Committee Size

The size of the audit committee plays a significant role in its effectiveness and impact on financial performance and reporting quality. A larger audit committee is believed to bring a broader perspective and more diverse experience, enhancing its control and monitoring functions (Al-Musali et al., 2019). Conversely, a smaller committee may be more effective in focusing on critical financial issues (Yah, 2006).

Studies suggest that smaller committees are better at protecting shareholders' interests and ensuring financial information quality (Wu et al., 2012). Conversely, larger committees may be less effective in influencing financial performance (Aldamen et al., 2012). The code of good corporate governance emphasizes the importance of an appropriately sized audit committee to enable it to fulfill its mandate effectively (Farooq et al., 2018). Large audit committees can improve the internal audit function and support the work of external auditors (Farooq et al., 2018; Hannifa et al., 2006).

The effectiveness of an audit committee depends partly on its characteristics, including size (Herdjiono & Sari, 2017). Larger committees are seen as having more resources and capacity to carry out responsibilities in controlling and monitoring managerial behavior (Kalbers & Fogarty, 1993). Research suggests that larger committees, with diverse skills and experiences, contribute to higher financial reporting quality (Dhaliwal et al., 2010). For example, audit committee size has been positively associated with financial reporting quality and accounting conservatism (Mohammed et al., 2017).

Number of Audit Committee Meetings

The frequency of audit committee meetings is a key determinant of effectiveness. Active and frequent meetings are essential for committees to address issues efficiently (Al-Musali et al., 2019). Menon and Williams (1994) suggest that meeting frequency can serve as a measure of committee effectiveness, while Bédard and Gendron (2010) argue that it reflects the success of committee members in achieving objectives.

According to agency theory (Jensen & Meckling, 1976), meeting frequency benefits the organization when the benefits outweigh associated costs. Although there is no consensus on the optimal number of meetings, Krismiaji et al. (2016) propose at least four meetings per year, as increased frequency can improve earnings quality, detect potential fraud, and enhance financial success. Research indicates that higher meeting frequency correlates with improved financial reporting quality, reduced financial restatements, and lower discretionary accruals (Habbash, 2015). More active and participative committee members contribute to better reporting quality (Mbobu & Umoren, 2016). Effective meetings require significant time commitment from members (Dhaliwal et al., 2010).

Audit Committee Gender Diversity

Gender diversity in audit committees can impact decision-making and committee effectiveness. Female members may bring different perspectives and demand different information compared to males (Alqatamin et al., 2017). Feminist economists argue that women are more likely to exhibit neutral moral judgments and responsible behavior, and female directors on audit committees are expected to have stronger monitoring roles (Abbott et al., 2012). However, Pathan and Faff (2013) suggest that an excessive proportion of female directors may negatively affect the board's effectiveness in certain contexts.

Gender diversity in the boardroom, including audit committees, improves organizational value and performance by providing new insights (Carter et al., 2003). Research indicates that women are less willing to compromise ethical standards for career advancement and more willing to establish ethical codes (Carter et al., 2003). Female presence enhances healthy board functioning and complements male directors (Bilic & Sustic, 2011).

Audit Quality

Audit quality is commonly defined as the likelihood that an auditor will detect and report violations or irregularities in a client's accounting system (DeAngelo, 1981). Auditing standards in Nigeria provide general guidelines, fieldwork standards, and reporting standards for auditors to effectively audit historical financial statements.

Due to its multidimensional nature, audit quality is difficult to measure, and stakeholders may have varying expectations (Tepalagul & Lin, 2015). Proxy measures, such as appointment of Big 4 audit firms, industry specialist auditors, audit fees, and audit tenure, are often used (Rajgopal et al., 2019). In this study, appointment of a Big 4 auditor serves as a proxy for audit quality, reflecting firms' commitment to high-quality financial reporting (DeAngelo, 1981).

Quality of Financial Report

The concept of financial reporting quality is debated and considered ambiguous. It emerged as a replacement for the term "true and fair" and depends on the users and purpose of the information. Dechow and Schrand (2010) define quality broadly as decision usefulness, while Ball and Shivakumar (2005) emphasize usefulness to investors, creditors, managers, and other stakeholders.

Qualitative characteristics of quality include relevance, understandability, reliability, completeness, objectivity, comparability, and timeliness. Proxies such as earnings persistence, predictability, variability, and cash-accrual relationships are used to assess reporting quality.

Auditor Size

Auditor size is typically determined by partner wealth, client portfolio size, and number of partners (Zhou, 2015). Studies show Big 4 auditors provide higher-quality audits than non-Big 4 auditors (Jiang et al., 2018), consistent with DeAngelo (1981). Larger audit firms invest more in technology and staff training, making them more capable of identifying misstatements and assessing going concern assumptions. Separation of audit and non-audit services and diversified revenue streams also enhance independence (Shockley, 1981, cited in Wati & Bambang, 2003).

Theoretical Framework

The study is anchored on Stewardship Theory, which provides the theoretical foundation for understanding managerial behavior in relation to corporate governance and audit committee effectiveness.

Stewardship Theory

Stewardship theory, proposed by Donaldson and Davis (1991), serves as a counterpoint to agency theory. It posits that the primary objective of managers is to maximize firm performance, as their sense of achievement and success is fulfilled when the organization prospers. Unlike agency theory, stewardship theory argues that managerial opportunism is minimal or insignificant (Muth & Donaldson, 1998).

Moreover, stewardship theory emphasizes that employees and managers value collective organizational goals over personal interests (Kluvers & Tippett, 2011). Van Slyke (2007) suggests that stewardship theory considers individual behaviors and relationships that traditional economic theories often overlook. These behaviors include **pro-organizational and collective actions** that prioritize goal alignment rather than self-interest. The theory assumes that **long-term relationships** within organizations are built on trust, shared objectives, and active involvement, fostering alignment of goals between management and employees through reciprocal interactions (Kluvers & Tippett, 2011).

Empirical Review

Audit Committee Size and Auditor Size

Al Lawati et al. (2021) examined the impact of audit committee characteristics (such as foreign members, female members, members with multiple directorships, members with share ownership, and members with financial and supervisory expertise) on the quality and quantity of forward-looking disclosure (FLD) in Omani financial companies listed on the Muscat Securities Market. The study used Pearson correlation and regression analysis on a sample of companies over a five-year period (2014-2018). The findings revealed that certain audit committee characteristics, including committee size, female members, and members with multiple directorships, improved FLD quality.

Elhawary (2021) investigated the impact of audit committee characteristics (size, independence, experience, gender diversity, and frequency of meetings) on the financial performance (ROA and ROE) of non-financial companies listed on the Egyptian Stock Exchange. The study collected data from the board of directors and annual reports of EGX 30 index companies for the period 2016-2018. Panel data cross-section data analysis and correlation analysis were used for data analysis. The findings indicated that audit committee size had a significant relationship with ROA, while committee members' experience was significantly related to ROE. The other characteristics, such as independence, meetings, and gender diversity, did not have an impact on ROA and ROE.

Bashir (2024) examined the interaction between capital structure, corporate governance characteristics, and financial performance. The study collected data from 113 firms listed on the PSX for the period 2013-2018. Multiple regression analysis was used to test the hypotheses. The results showed that insider shareholding and board size had a significant negative impact on financial performance, while audit committee size had a positive and significant effect on financial performance. The study also found that CEOs holding dual positions had a positive impact on financial performance. Furthermore, the study indicated a positive influence of capital structure on financial performance.

Number of Audit Committee Meetings and Audit Size

Haddad et al. (2024) examined the relationship between audit committee quality and the financial performance of conventional and Islamic banks between 2010 and 2019. The study included 112 banks of each type from various continents. Generalized Least Squares analysis was employed to compare the impacts. The results showed that the audit committee had a negative effect on the profitability of both bank types. Additionally, it negatively affected the efficiency of conventional banks, while its effect on Islamic banks was unclear.

Satriawan et al. (2024) conducted a study to determine the effect of local government characteristics and the Supreme Audit Agency (BPK) audit opinions on the financial performance of local governments in South Sumatra, Indonesia. The study focused on regional characteristics measured by the Level of Regional Wealth (TKA) and the financial performance of local governments measured by the Regional Financial Independence Ratio (RKKD). The research included eighteen district, city, and provincial governments in South Sumatra from 2016 to 2019. Secondary data was collected and processed using SPSS. The results showed that regional characteristics had a positive and significant effect on the financial performance of local governments. However, the BPK's audit opinion had a positive but insignificant effect on the performance of local governments in South Sumatra.

Usman et al. (2024) examined the relationship between audit characteristics and audit fees on classification shifting among German-listed non-financial firms. The study used a sample of 130 German-listed firms from 2010 to 2019, including firms listed on the Deutscher Aktienindex, Mid Cap DAX, and Small Caps Index. The study investigated the impact of audit committee size, audit committee meetings, audit committee financial expertise, and audit fees on classification shifting, which refers to the misclassification of recurring expenses as non-recurring expenses to inflate core earnings. The study found evidence of classification shifting among German-listed firms. Additionally, the study found that the audit fee ratio, audit committee financial expertise, and frequency of audit meetings were negatively associated with classification shifting. However, the audit committee size did not influence classification shifting.

Audit Committee Gender Diversity and Auditor Size

Mohammad et al. (2024) conducted a study to explore the impact of audit characteristics and gender diversity on firm performance in family and non-family firms in Bangladesh. The study used data from 61 non-family firms and 48 family firms from 2013 to 2019 and employed the system generalized method of moments approach for regression analysis. The results showed that in non-family firms, the presence of Big4 audit firms and female directors on the board had a significant positive impact on firm performance. On the other hand, audit meeting frequency had a negative contribution to firm performance. However, audit committee size and audit committee independence did not have a significant impact on firm performance. In family firms, the study found that audit committee size and audit committee independence had a significant negative impact on firm performance. The presence of Big4 audit firms, audit meeting frequency, and female directors on the board did not have a significant impact on firm performance. These findings suggest that corporate governance mechanisms in family firms may not be effective and could even be detrimental to firm performance, indicating a need for reforms and new dimensions in the corporate governance framework for family firms.

Ahmad and Rasha (2024) investigated the effect of audit committee characteristics on company performance. The study included a sample of 198 non-financial companies listed on the Amman Stock Exchange from 2010 to 2020. Panel data regression methods were employed for analysis. The results indicated that audit committee size, independence, and gender diversity had a significant positive relationship with firm performance, as measured by TQ (total quality). However, experience and frequency of meetings did not show a significant association. These findings provide useful insights for managers and boards in making appropriate choices regarding audit committee characteristics and corporate governance mechanisms to enhance company performance.

Musah et al. (2024) examined the effect of board characteristics, audit committee characteristics, and gender diversity on audit fees of listed firms in Ghana. The study utilized a quantitative approach with secondary data extracted from annual reports of 21 listed firms (excluding commercial banks and insurance companies) over a 10-year period from 2010 to 2019. Descriptive analysis, correlation analysis, and panel regression analysis were

conducted on the collected data. The results revealed that listed firms in Ghana had good corporate governance structures, including board size, board independence, and board chairperson independence. However, the study also found that female representation on boards and in other top-level positions among listed firms was low. The regression analysis showed that board size, independent board chairperson, management shareholding, and female representation on the board were significant determinants of audit fees in Ghana. Specifically, board size and independent board chairperson had a positive relationship with audit fees, while management shareholding and female representation on the board had a negative relationship with audit fees.

Gap in Empirical Review

From the foregoing empirical review, it is evident that numerous studies have examined the determinants of audit committee characteristics both locally and internationally. However, the novelty of this study lies in its focus on the relationship between audit committee size, frequency of meetings, and expertise on firm performance, which has not been thoroughly explored in non-financial firms in Nigeria.

Furthermore, most previous studies considered only two to four years of data to assess the impact of audit committee characteristics, often providing limited practical insights. By adopting a longer study period and extending the scope to include non-financial firms, this research aims to provide a more comprehensive and in-depth analysis. Such an approach is expected to yield more reliable and generalizable findings that can better inform corporate governance practices in the Nigerian context.

Methodology

Research Design

The study adopted an *ex-post facto research design*. Ex-post facto research is appropriate for investigating relationships among variables where the events have already occurred, providing a systematic and empirical solution to research problems of a historical nature. This design allows for the examination of how audit committee characteristics influence financial reporting quality in oil and gas firms over a defined period.

Area of Study

The research was conducted in Nigeria, focusing on non-financial firms in the oil and gas sector listed on the Nigerian Exchange Group (NGX). The oil and gas industry was selected due to its critical role in the Nigerian economy and the availability of verifiable financial and corporate governance data.

Sources of Data

The study utilized secondary data. Time series data from 2015 to 2024 were extracted from the annual reports and accounts of the sampled oil and gas firms. These data provided detailed information on audit committee characteristics and financial reporting quality.

Population of the Study

The population of the study comprised ten oil and gas companies listed on the NGX. These companies represent all non-financial firms in the sector with publicly available financial and corporate governance information.

Sample Size Determination

For this study, five oil and gas firms were purposively selected based on the availability of complete and verifiable data. The selected firms are: MRS Oil Nigeria Plc., Total Oil Plc., Conoil Plc., Japaul Gold & Ventures, Ardova Plc.

Purposive sampling ensured that only firms with consistent and accessible data were included, which enhances the reliability and validity of the study.

Model Specification

The relationships between audit committee characteristics and financial reporting quality were analyzed using standardized formulas for correlation analysis. The models are specified as follows:

i. Audit Committee Size (ACSIZE)

$$r = \frac{1}{n-1} \sum \left[\frac{ACSIZE_i - \overline{ACSIZE}}{S_{ACSIZE}} \times \frac{ASIZE_i - \overline{ASIZE}}{S_{ASIZE}} \right]$$

ii. Audit Committee Meetings (ACM)

$$r = \frac{1}{n-1} \sum \left[\frac{ACM_i - \overline{ACM}}{S_{ACM}} \times \frac{ASIZE_i - \overline{ASIZE}}{S_{ASIZE}} \right]$$

iii. Audit Committee Gender Diversity (ACGDIV)

$$r = \frac{1}{n-1} \sum \left[\frac{ACGDIV_i - \overline{ACGDIV}}{S_{ACGDIV}} \times \frac{ASIZE_i - \overline{ASIZE}}{S_{ASIZE}} \right]$$

Where:

n	=	number of observations
∑	=	summation symbol
ASIZE _i	=	auditor size for observation i
\overline{ASIZE}	=	mean of auditor size
S _{ASIZE}	=	standard deviation of auditor size
ACSIZE _i	=	audit committee size for observation i
\overline{ACSIZE}	=	mean of audit committee size
S _{ACSIZE}	=	standard deviation of audit committee size
ACM _i	=	number of audit committee meetings for observation i
\overline{ACM}	=	mean of audit committee meetings
S _{ACM}	=	standard deviation of audit committee meetings
ACGDIV _i	=	audit committee gender diversity for observation iii
\overline{ACGDIV}	=	mean of audit committee gender diversity
S _{ACGDIV}	=	standard deviation of audit committee gender diversity

Method of Data Analysis

Spearman's rank-order correlation analysis (Spearman's rho, ρ) was used to examine the relationships between selected audit committee characteristics and auditor size. The data analysis was conducted in the following sequence:

- i. **Descriptive statistics** were used to summarize and check the validity of the results and data.
- ii. **Spearman's rank-order correlation analysis** was conducted to determine the strength and direction of the relationships between audit committee attributes and auditor size.

Statement of Decision Criteria

Decision Rule:

If $r > 0.7$, the null hypothesis is rejected.

If $r \leq 0.7$, the null hypothesis is accepted.

The decision threshold of $r = 0.7$ is used as a benchmark for strong correlation in this study.

Data Presentation and Analysis

Data Presentation

The raw data analyzed in this study were extracted from the directors' reports of audited financial statements of the sampled oil and gas firms listed on the Nigerian Exchange Group (NGX). The data span the period 2015–2024 and include the key variables: audit committee size (ACSIZE), number of audit committee meetings (NUMEET), audit committee gender diversity (ACGDIV), and auditor size (AUDSIZE). These variables were chosen to examine the relationship between audit committee characteristics and auditor size in Nigeria's oil and gas sector.

Descriptive Statistics

Table 1: Descriptive Statistics of Key Variables

Variable	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability	Observations
ACSIZE	5.960	6.000	7.000	5.000	0.402	-0.332	6.183	22.022	0.000017	50
NUMEET	4.360	4.000	6.000	3.000	0.663	0.313	3.029	0.821	0.663457	50
ACGDIV	0.133	0.167	0.333	0.000	0.124	0.303	1.846	3.535	0.170719	50

Source: EViews 10.0 Output, 2026

The Jarque-Bera test indicates that ACSIZE is significantly non-normal ($p = 0.000017$), whereas NUMEET ($p = 0.663457$) and ACGDIV ($p = 0.170719$) are approximately normally distributed.

Skewness coefficients show that ACSIZE is slightly negatively skewed, while NUMEET and ACGDIV are positively skewed.

Kurtosis values indicate leptokurtosis for ACSIZE (>3), near-normal distribution for NUMEET, and platykurtic distribution for ACGDIV (<3).

These results justify the use of Spearman rank-order correlation to assess relationships, as it is robust to non-normal data distributions.

Correlation Analysis

Table 2: Correlation Matrix

	AUDSIZE	ACSIZE	NUMEET	ACGDIV
AUDSIZE	1.000	-0.185	0.386	0.539
ACSIZE	-0.185	1.000	0.055	-0.219
NUMEET	0.386	0.055	1.000	0.276
ACGDIV	0.539	-0.219	0.276	1.000

Source: EViews 10.0 Output, 2026

The analysis of the relationships between audit committee characteristics and auditor size reveals varying levels of influence. Audit committee size exhibits a weak negative correlation with auditor size ($r = -0.185$), indicating that larger committees do not necessarily correspond to engagement of bigger audit firms. The number of audit committee meetings shows a weak positive correlation with auditor size ($r = 0.386$), suggesting that more frequent meetings may slightly encourage the selection of larger auditors but with limited impact. In contrast, audit

committee gender diversity demonstrates a moderate positive correlation with auditor size ($r = 0.539$), highlighting that greater female representation within the audit committee is associated with a higher likelihood of engaging larger audit firms. Therefore, these findings indicate that among the audit committee characteristics studied, gender diversity exerts the strongest influence on auditor size, while committee size and meeting frequency have comparatively weaker effects.

Test of Hypotheses

The study adopted the Spearman rank correlation coefficient (r) to test the strength and direction of relationships between variables. The following rule of thumb was used to interpret correlation coefficients:

<i>Absolute Value of r</i>	<i>Strength of Relationship</i>
$r < 0.3$	Very Weak / None
$0.3 \leq r < 0.5$	Weak
$0.5 \leq r < 0.7$	Moderate
$r \geq 0.7$	Strong

Decision Rule:

$r \geq 0.7 \rightarrow$ Reject Null Hypothesis
 $r < 0.7 \rightarrow$ Accept Null Hypothesis

Hypothesis One: Audit Committee Size vs Auditor Size

H_0 : Audit committee size does not have a strong relationship with auditor size.
 H_1 : Audit committee size has a strong relationship with auditor size.

Results:

Correlation coefficient: $-0.185 \rightarrow 18\%$ (very weak, negative)

Decision: Accept $H_0 \rightarrow$ audit committee size does not have a strong relationship with auditor size

Hypothesis Two: Number of Audit Committee Meetings vs Auditor Size

H_0 : Number of audit committee meetings does not have a strong relationship with auditor size.
 H_1 : Number of audit committee meetings has a strong relationship with auditor size.

Results:

Correlation coefficient: $0.386 \rightarrow 39\%$ (weak, positive)

Decision: Accept $H_0 \rightarrow$ number of meetings does not have a strong relationship with auditor size

Hypothesis Three: Audit Committee Gender Diversity vs Auditor Size

H_0 : Audit committee gender diversity does not have a strong relationship with auditor size.
 H_1 : Audit committee gender diversity has a strong relationship with auditor size.

Results:

Correlation coefficient: $0.539 \rightarrow 54\%$ (moderate, positive)

Decision: Accept $H_0 \rightarrow$ gender diversity does not have a strong relationship with auditor size

Discussion of Findings

Audit Committee Size and Auditor Size

The analysis of Hypothesis One revealed that audit committee size has a weak negative relationship with auditor size in the oil and gas sector in Nigeria. This suggests that increases in the size of audit committees do not significantly influence the choice of auditor, particularly the engagement of 'Big 4' firms, which serve as a proxy for financial reporting quality.

The weak negative relationship aligns with theoretical expectations. In the oil and gas sector, larger audit committees may possess greater expertise and oversight capacity, which could lead to more careful but selective engagement of auditors. It is possible that firms with larger audit committees feel capable of ensuring financial reporting quality internally, thereby reducing reliance on auditor size as an indicator of assurance. Additionally, larger audit committees might focus on more cost-effective auditors while still ensuring compliance, contributing to the weak negative relationship observed.

This finding underscores that audit committee size alone is not a decisive determinant of auditor choice in oil and gas firms. Rather, the effectiveness of the committee may depend more on the combination of size, expertise, and active participation, rather than merely the number of committee members.

Number of Audit Committee Meetings and Auditor Size

Hypothesis Two tested the relationship between the number of audit committee meetings and auditor size. The results show a weak positive relationship, indicating that while more frequent meetings may slightly increase the likelihood of engaging larger audit firms, the effect is not strong enough to be considered significant.

This finding aligns with a priori expectations. The number of meetings, by itself, may not strongly influence auditor selection. However, a higher frequency of meetings could reflect more active monitoring and scrutiny by the audit committee, which may encourage firms to engage auditors with greater capacity to handle complex financial reporting requirements, as seen in the oil and gas sector.

The weak relationship suggests that frequency of meetings is a necessary but insufficient factor for determining auditor size. Other qualitative aspects, such as the committee's expertise, experience, and decision-making processes, may have a more pronounced impact on financial reporting quality.

Audit Committee Gender Diversity and Auditor Size

Hypothesis Three examined the relationship between audit committee gender diversity and auditor size. The results indicate a moderate positive relationship, implying that higher gender diversity within the audit committee increases the likelihood of hiring larger audit firms ('Big 4'), which can enhance financial reporting quality.

This moderately strong relationship suggests that gender-diverse audit committees bring broader perspectives, improved risk assessment, and more rigorous oversight. In the context of oil and gas firms, such committees may prioritize engagement of larger, more capable audit firms to ensure comprehensive auditing of complex operations and compliance with industry-specific reporting standards.

The findings emphasize the value of gender diversity as a corporate governance mechanism that positively influences strategic decisions related to audit quality, enhancing stakeholder confidence and promoting accountability in financial reporting.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

The findings are summarized as follows:

- i. The study found that audit committee size has a weak negative relationship with auditor size in oil and gas firms ($r = -0.1846$; 18%). This indicates that increasing the number of audit committee members does not significantly influence the likelihood of engaging larger audit firms or improving financial reporting quality.
- ii. The number of audit committee meetings exhibited a weak positive relationship with auditor size ($r = 0.3858$; 39%). This suggests that while more frequent meetings may reflect greater oversight, they only marginally affect the choice of larger audit firms.
- iii. Gender diversity within audit committees showed a moderate positive relationship with auditor size ($r = 0.5392$; 54%). This implies that firms with more gender-diverse audit committees are more likely to engage larger and more capable audit firms, thereby potentially enhancing financial reporting quality.

Conclusion

Auditing remains a vital part of corporate governance, ensuring proper resource utilization, preventing earnings management, and enhancing the reliability of financial reporting. Audit committees provide critical oversight over the financial reporting process, internal controls, and compliance with regulations. This study specifically examined the relationship between audit committee characteristics and auditor size used as a proxy for financial reporting quality in oil and gas firms listed on the Nigeria Exchange Group. The analysis revealed that audit committee size has a weak negative effect on auditor size, while the frequency of committee meetings shows a weak positive effect. Notably, gender diversity within audit committees exhibits a moderately strong positive relationship with auditor size, suggesting that increased diversity supports engagement with larger, more capable audit firms. These findings confirm that the structure and composition of audit committees are important determinants of financial reporting quality. In practice, firms in the oil and gas sector can enhance the reliability of their financial statements by maintaining appropriately sized committees, fostering active participation through regular meetings, and promoting gender diversity within the board.

Recommendations

Following the findings from the result of the study, the following recommendations are made:

- i. Oil and gas firms should review and maintain an optimal audit committee size that balances expertise and decision-making efficiency. While larger committees may provide more resources, the weak negative relationship with auditor size suggests that excessive members do not necessarily enhance financial reporting quality. Firms should focus on selecting members with relevant skills rather than merely increasing numbers.
- ii. Firms should actively promote gender diversity within their audit committees. The moderately strong positive relationship between audit committee gender diversity and auditor size indicates that a more balanced representation of women can enhance oversight and support the engagement of larger, high-quality audit firms, thereby improving financial reporting quality.
- iii. Although the number of meetings showed a weak positive effect, firms should ensure that audit committee meetings are purposeful and focused on key financial reporting issues. Effective meetings, combined with skilled committee members, can strengthen oversight and help in timely detection of errors or irregularities, even if frequency alone does not guarantee better auditor selection.

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