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Moderating Effect of Audit Quality on the Relationship between Audit Committee Characteristics and Financial Reporting Quality of Listed Deposit Money Banks in Nigeria

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Abstract

Purpose: This study examines the effect of audit committee size and audit committee independence on financial reporting quality and investigates the moderating effect of audit quality among listed deposit money banks in Nigeria.

Methodology: The study adopted an ex post facto research design and a panel-data approach. The population comprised 13 listed deposit money banks in Nigeria, from which 10 banks were purposively selected. Secondary data were obtained from the audited annual reports of the sampled banks covering the period 2016–2025, yielding 100 firm-year observations. The data were analysed using descriptive statistics, diagnostic tests, the Hausman specification test, and fixed-effects panel regression.

Results and conclusion: The findings reveal that audit committee size has a positive and significant effect on financial reporting quality, while audit committee independence has a positive but insignificant effect. Audit quality has a negative and insignificant effect, while its interactions with audit committee size and independence are also negative and insignificant. The study concludes that audit committee size significantly improves financial reporting quality, whereas other examined governance mechanisms do not significantly influence financial reporting quality

Implication of findings: The findings imply that strengthening audit committee size may improve financial reporting quality among listed deposit money banks in Nigeria. However, the insignificant effects of audit committee independence, audit quality, and their interactions suggest that structural characteristics alone are insufficient. Greater emphasis should therefore be placed on audit committee effectiveness, expertise, independence, and monitoring capacity.

Keywords: Audit Committee Size, Audit Committee Independence, Audit Quality, Financial Reporting Quality.

1. Introduction

Financial reporting quality (FRQ) is fundamental to corporate transparency, accountability, and efficient capital market functioning because it provides investors, creditors, regulators, and other stakeholders with reliable and decision-useful information. High-quality reporting reduces information asymmetry, supports efficient resource allocation, enhances investor confidence, and strengthens market discipline. Conversely, poor-quality reporting can obscure firms' economic performance, encourage earnings management, increase agency conflicts, and undermine confidence in corporate disclosures. Consequently, improving financial reporting quality remains a major objective of corporate governance reforms across developed and emerging economies (Bhattacharya et al., 2022; IASB, 2020).

The importance of financial reporting quality is particularly significant in the banking sector because banks serve as custodians of public deposits and providers of financial intermediation. Investors, depositors, creditors, and regulators depend on credible financial reports for informed decisions and effective oversight. In Nigeria, listed deposit money banks operate under regulatory frameworks including the Companies and Allied Matters Act (CAMA) 2020, the Nigerian Code of Corporate Governance (2018), the Central Bank of Nigeria Code of Corporate Governance for Banks and Discount Houses (2021), and financial reporting standards issued by the Financial Reporting Council of Nigeria.

These frameworks aim to strengthen governance, accountability, and reporting credibility. However, earnings management, financial reporting irregularities, governance failures, and regulatory sanctions continue to raise concerns about the effectiveness of existing mechanisms in promoting high-quality reporting in the Nigerian banking industry (Central Bank of Nigeria, 2021; Financial Reporting Council of Nigeria, 2021).

Within corporate governance, the audit committee serves as an important internal monitoring mechanism for safeguarding financial reporting integrity. It oversees the reporting process, evaluates internal controls, monitors compliance with accounting and regulatory requirements, and facilitates communication among management, internal auditors, external auditors, and the board. Its effectiveness depends particularly on audit committee size and independence. Audit committee size may enhance monitoring by providing diverse expertise and experience, although excessively large committees may create coordination difficulties. Audit committee independence, on the other hand, promotes objective oversight by limiting managerial influence. Independent members are better positioned to challenge aggressive accounting practices, strengthen compliance, and promote transparent disclosures, thereby reducing agency conflicts and improving financial reporting quality (Klein, 2002; Abbott et al., 2004; Velte, 2023).

Audit quality also represents an important external monitoring mechanism for enhancing the credibility of financial reporting. In this study, audit quality is measured using audit fees, on the premise that higher fees may reflect greater audit effort, extensive procedures, and stronger commitment to audit engagements. Adequate audit fees may enable auditors to deploy sufficient resources and expertise, increasing the likelihood of detecting material misstatements, discouraging earnings management, and ensuring compliance with applicable standards. Audit quality may also complement the monitoring role of the audit committee, suggesting that effective internal oversight may produce stronger reporting outcomes when supported by high-quality external audits (DeFond & Zhang, 2014; Velte, 2023).

Despite regulatory reforms and growing interest in corporate governance, concerns about financial reporting quality among listed deposit money banks in Nigeria persist. Financial reporting irregularities, regulatory sanctions, governance deficiencies, and declining stakeholder confidence suggest that existing governance mechanisms may not adequately constrain managerial opportunism or ensure transparent reporting. Poor reporting quality increases information asymmetry, weakens market discipline, distorts resource allocation, and may expose the financial system to operational and systemic risks. These concerns make improving financial reporting quality an important policy and research priority (Velte, 2023; Central Bank of Nigeria, 2021).

Previous studies have extensively examined audit committee characteristics and financial reporting quality across different institutional settings. While many find that audit committee size and independence enhance financial reporting quality through stronger monitoring, others report insignificant or inconsistent relationships due to differences in institutional environments, governance structures, methodologies, measurement approaches, and industry characteristics. Although evidence generally supports a positive relationship between audit quality and financial reporting quality, limited attention has been given to its moderating role, particularly among listed deposit money banks in Nigeria. This gap is important because audit committee characteristics and audit quality may operate as complementary governance mechanisms whose combined effects better explain financial reporting quality (DeFond & Zhang, 2014; Velte, 2023).

Against this backdrop, this study examines the effect of audit committee size and audit committee independence on the financial reporting quality of listed deposit money banks in Nigeria, while investigating the moderating role of audit quality. By integrating internal governance mechanisms with external audit quality, the study contributes contemporary evidence to the corporate governance and auditing literature and provides practical insights for regulators, boards, audit committees, auditors, investors, and policymakers seeking to strengthen governance, reporting credibility, and confidence in Nigeria's banking sector.

2. Literature review

2.1 Empirical Review

Empirical evidence on corporate governance mechanisms and financial reporting quality has expanded considerably across developed and emerging economies, with audit committee size, audit committee independence, and audit quality receiving substantial scholarly attention because of their roles in strengthening financial reporting oversight, promoting transparency, and enhancing the credibility of financial reports. Although many empirical studies report positive relationships, findings remain inconsistent across institutional and regulatory environments because of differences in governance structures, regulatory frameworks, and measurement approaches. These inconsistencies reveal important empirical gaps that justify further investigation, particularly within the Nigerian banking sector.

With respect to audit committee size, empirical evidence on its relationship with financial reporting quality is mixed but predominantly supportive. Salehi et al. (2019), Hassan and Musa (2020), Alhumoudi (2024), Essien (2024), Alqatamin and Alqatamin (2024), Vo and Tran (2024), Audu and ahaya (2024), and Ashraf et al. (2024) reported that larger audit committees improve financial reporting quality by strengthening monitoring, broadening professional expertise, enhancing oversight of the financial reporting process, and improving compliance with accounting standards. However, Hamdan (2018) found no significant relationship after controlling for firm-specific governance characteristics, while Velte (2023) argued that the effectiveness of audit committee size depends on institutional quality, regulatory enforcement, audit quality, and complementary governance mechanisms. Similarly, Alhumoudi (2024) and Islam et al. (2023) maintained that financial expertise and overall audit committee quality exert greater influence on financial reporting quality than committee size alone. Thus, the relationship between audit committee size and financial reporting quality remains theoretically and empirically unresolved.

Similarly, audit committee independence has attracted considerable empirical attention, although findings remain mixed. Klein (2002), Abbott et al. (2004), Salehi et al. (2019), Hassan and Musa (2020), Alhababsah (2021), Alhumoudi (2024), and Alqatamin and Alqatamin (2024) found that independent audit committees strengthen financial reporting quality through objective oversight, enhanced monitoring, improved auditor interactions, and greater transparency. In contrast, Hamdan (2018), Velte (2023), Islam et al. (2023), and Ashraf et al. (2024) argued that audit committee independence alone is insufficient, as its effectiveness depends on financial expertise, audit quality, internal audit effectiveness, and broader institutional and governance factors. Therefore, the empirical evidence on audit committee independence remains inconclusive, suggesting that independence may require complementary governance mechanisms to translate into improved financial reporting outcomes.

Beyond audit committee characteristics, audit quality has also been widely investigated as a determinant of financial reporting quality. Alzoubi (2018), Salehi et al. (2019), Bala and Gugong (2020), Ofoegbu and Okaro (2021), and Wehrhahn and Velte (2024) found that high audit quality significantly improves financial reporting quality through stronger audit effectiveness, external monitoring, and reporting credibility. Conversely, Hassan and Bello (2019), Eyenubo et al. (2021), DeFond and Zhang (2014), Velte (2023), and Asogba et al. (2024) reported insignificant or context-dependent relationships. These studies suggest that the effectiveness of audit quality may depend on institutional arrangements, auditor incentives, regulatory enforcement, and complementary governance mechanisms rather than audit quality alone. The conflicting evidence therefore indicates that the effect of audit quality on financial reporting quality remains dependent on the institutional and governance context.

Furthermore, recent empirical studies have extended this discussion by examining the moderating role of audit quality in the relationship between audit committee characteristics and financial reporting quality. Salehi et al. (2019), Alhababsah (2021), Ashraf et al. (2024), Wehrhahn and Velte (2024), Alhumoudi (2024), Ibrahim and Thomas (2024), Hassan et al. (2025), and Umasabor and Okonkwo (2025) found that audit quality strengthens the positive influence of audit committee characteristics on financial reporting quality by reinforcing oversight, improving the detection of financial reporting irregularities, and enhancing reporting credibility. Nevertheless, DeFond and Zhang (2014), Velte (2023), Islam et al. (2023), Alqatamin and Alqatamin (2024), and Alhumoudi (2024) argued that the moderating effect depends on institutional quality, regulatory environments, internal audit effectiveness, and broader governance mechanisms. These divergent findings indicate that the moderating role of audit quality is not universally established and may vary according to the governance and regulatory environment in which firms operate.

Taken together, the empirical evidence remains inconclusive, with studies reporting positive, insignificant, and context-dependent relationships among audit committee characteristics, audit quality, and financial reporting quality. Limited attention has been given to their combined effects, particularly the moderating role of audit quality, especially within the Nigerian banking sector. This gap justifies examining whether audit quality moderates the relationship between audit committee size, audit committee independence, and financial reporting quality among listed deposit money banks in Nigeria.

2.2 Hypotheses Formulation

The research hypotheses are formulated in the null form to address the specific objectives of the study as follows

H01: Audit committee size does not significantly affect financial reporting quality of listed deposit money Banks in Nigeria.

H02: Audit committee independence has no significant effect on financial reporting quality of listed deposit money Banks in Nigeria.

H03: There is no significance relationship between audit quality and financial reporting quality of listed deposit money Banks in Nigeria.

H04: Audit quality does not significantly moderate the relationship between audit committee size and financial reporting quality of listed deposit money Banks in Nigeria.

H05: Audit quality has no significant moderating effect on the relationship between audit committee independence and financial reporting quality of listed deposit money Banks in Nigeria.

2.3 *Theoretical Framework*

This study is anchored on Agency Theory and Resource Dependence Theory. Agency Theory, developed by Jensen and Meckling (1976), provides the primary foundation for explaining the relationship between audit committee characteristics and financial reporting quality. The theory posits that separation of ownership and control creates agency conflicts due to information asymmetry and managerial self-interest, making effective governance mechanisms necessary to monitor management and ensure reliable reporting. Audit committee size enhances monitoring capacity through greater expertise, while independence promotes objective oversight by limiting managerial influence. Audit quality further strengthens these mechanisms by providing independent assurance on financial statement credibility and is therefore expected to moderate the relationship between audit committee characteristics and financial reporting quality.

The study is further supported by Resource Dependence Theory, proposed by Pfeffer and Salancik (1978), which posits that organisational effectiveness depends on access to valuable resources such as knowledge, expertise, experience, and professional networks. In this context, an appropriately sized and independent audit committee provides strategic resources that enhance oversight of financial reporting, while high-quality external auditors contribute specialised expertise and independent assurance that complement the committee's monitoring role. Together, Agency Theory and Resource Dependence Theory provide a comprehensive explanation for the direct influence of audit committee size and audit committee independence on financial reporting quality, as well as the moderating role of audit quality among listed Deposit Money Banks in Nigeria.

3. Methodology

This study adopted an ex post facto research design within a quantitative research paradigm and employed a panel data approach to examine the effect of audit committee characteristics on the financial reporting quality of listed Deposit Money Banks in Nigeria, with audit quality serving as a moderating variable. The study population comprised thirteen (13) Deposit Money Banks listed on the Nigerian Exchange Group (NGX) as at 31 December 2025. A sample of ten (10) banks was selected using a purposive sampling technique, excluding Jaiz Bank because it operates as a non-interest (Islamic) bank, and excluding Union Bank and Unity Bank due to the unavailability of up-to-date financial reports covering the study period. Secondary data were extracted from the audited annual reports of the sampled banks for the period 2016–2025. The data were analysed using descriptive statistics, diagnostic tests, and the Driscoll–Kraay standard error estimator.

Model Specification

The modified model for this study is specified as:

$$FRQ_{it}=\beta_0+\beta_1 ACSIZE_{it}+\beta_2 ACIND_{it}+\beta_3 AQ_{it}+\beta_4 FSIZE + \beta_5 ACSIZE * \mathrm{AQ}+\beta_6 ACIND*AQT_{it}+\varepsilon$$

where: FRQ = Financial Reporting Quality, ACSIZE= Audit Committee Size, ACIND = Audit Committee Independence, FSIZE= Firm Size, AQ = Audit Quality, ε = Error term.

Table 1: Measurements of Variables

Variables	Acronomy	Type	Measurement	Previous Studies
Financial Reporting Quality (FRQ)	FRQ	Dependent	Financial reporting quality is measured using the absolute value of discretionary loan-loss provisions (|DLLP|) estimated from a bank-specific loan-loss provision model.	Salami et al.,(2022); Shika & Kantiyok (2023); Essien & Akpan, 2024; Chronopoulos et al.(2024)
Audit Committee Size	ACSIZE	Independent	Total number of members of audit committee at the end of financial year	Abbott et al. (2004); Bédard et al. (2004); Bhattacharya et al. (2022); Audu & Yahaya (2024)
Audit Committee Independence	ACIND	Independent	Measured as the number of independent audit committee members divided by the total number of audit committee members	Ibrahim et al.(2026);Hassan et al.(2022);Tijani et al.(2025); Irowa-Omoregie & Ohonba (2025)
Firm Size	FSIZE	Control	Measured as Log of Total Assets	Enang, et al.(2022; Awodiran & Ogundele, (2022); Abiloro et al.(2026)
Audit QUality	AQ	Moderating	Measured as logarithm of Audit Fee	Hartono & Laksito(2022);Hartaty & Dianawati(2024);Krauss et al.(2015)

Source: Author’s Compilation (2026)

4. Results and discussion

4.1 Discriptive statistics

Descriptive statistics give a clear summary of the main features of the study variables by showing measures such as the mean, standard deviation, minimum, maximum, skewness, and kurtosis. In this study, they offer an overview of the distribution and variability of Audit Committee Size (ACSIZE), Audit Committee Independence (ACIND), Firm Size (FSIZE), Audit Quality (AQ), and Financial Reporting Quality (FRQ), and they provide a foundation for the statistical analyses that follow.

Table 2: Discriptive statistics

Variables	OBS	Mean	Std. Dev	Min	Max	Skewness	Kurtosis
ACSIZE	100	5.50	0.54	4.00	7.00	0.00	-1.06
ACIND	100	0.14	0.14	0.00	0.50	0.61	-0.61
AQ	100	5.79	0.43	5.01	6.94	0.31	-0.48
FSIZE	100	9.55	0.44	8.59	10.62	0.10	-0.29
FRQ	100	0.35	0.07	0.30	0.72	3.48	14.66

Source: Author’s Computation (2026)

The descriptive statistics indicate that FRQ has a mean of 0.35 and standard deviation of 0.07, with values ranging from 0.30 to 0.72, while its skewness (3.48) and kurtosis (14.66) indicate a highly positively skewed and peaked distribution. ACIND records a mean of 0.14 and standard deviation of 0.14, ranging from 0.00 to 0.50, with moderate positive skewness (0.61) and negative kurtosis (-0.61). ACSIZE has a mean of 5.50 and standard deviation of 0.54, ranging from 4.00 to 7.00, with zero skewness (0.00) and negative kurtosis (-1.06). FSIZE has a mean of 9.55 and standard deviation of 0.44, ranging from 8.59 to 10.62, while its low skewness (0.10) and kurtosis (-0.29) indicate an approximately symmetric distribution. AQ records a mean of 5.79 and standard deviation of 0.43, ranging from 5.01 to 6.94, with slight positive skewness (0.31) and negative kurtosis (-0.48). Overall, except for FRQ, the variables exhibit relatively moderate skewness and kurtosis, suggesting generally stable distributions for subsequent analysis.

4.2 *Preliminary Analyses*

Preliminary analyses were conducted to assess the suitability of the data for panel regression estimation and to ensure the validity and reliability of the empirical results. These analyses involved a series of diagnostic tests to examine the underlying assumptions of the panel data, identify potential econometric issues, and determine the most appropriate estimation technique. Specifically, tests for multicollinearity, model specification and cross-sectional dependence were performed before estimating the regression models.

4.2.1 Multicollinearity Test

The multicollinearity test was conducted to assess the degree of correlation among the explanatory variables and ensure the reliability of the regression estimates. Pairwise correlation, tolerance values, and Variance Inflation Factor (VIF) were employed to determine whether multicollinearity existed before estimating the panel regression model.

Table 3: Pairwise Correlation Matrix

Variables	ACSIZE	ACIND	AQ	FSIZE
ACSIZE	1.00			
ACIND	0.10	1.00		
AQ	-0.35	0.43	1.00	
FSIZE	-0.42	0.45	0.52	1.00

Source: Author's Computation (2026)

Table 4: Tolerance and VIF

Variables	Tolerance	VIF	Interpretation
ACSIZE	0.72	1.40	Very low multicolinearity
ACIND	0.70	1.44	Very low multicolinearity
AQ	0.15	2.76	Very low multicolinearity
FSIZE	0.13	3.70	Very low multicolinearity

Source: Author's Computation (2026)

The correlation matrix indicates that the explanatory variables do not exhibit excessively high pairwise correlations. The correlation between ACSIZE and ACIND is weak and positive ($r = 0.10$), while ACSIZE has moderate negative correlations with AQ ($r = -0.35$) and FSIZE ($r = -0.42$). ACIND has moderate positive correlations with AQ ($r = 0.43$) and FSIZE ($r = 0.45$). The correlation between AQ and FSIZE is also moderate and positive ($r = 0.52$). Since all correlation coefficients are below the commonly used threshold of 0.80, the results suggest that there is no serious multicollinearity among the variables.

The tolerance and VIF statistics further confirm the absence of multicollinearity. ACSIZE has a tolerance value of 0.72 and VIF of 1.40, while ACIND has a tolerance of 0.70 and VIF of 1.44. AQ has a tolerance of 0.15 and VIF of 2.76, while FSIZE has a tolerance of 0.13 and VIF of 3.70. Although the tolerance values for AQ and FSIZE are relatively low, they remain above the minimum tolerance criterion of 0.10, while all VIF values are below the commonly accepted threshold of 10 (and also below the more conservative threshold of 5). Thus, the diagnostic results indicate that multicollinearity is not a serious concern in the regression model, and the independent variables can be included together without significant distortion of the estimated regression coefficients.

4.2.2 Cross-sectional dependence tests

The cross-sectional dependence test was conducted to determine whether the cross-sectional units in the panel dataset are independently distributed or influenced by common shocks and interdependencies. The presence of cross-sectional dependence may lead to biased and inconsistent standard errors if ignored. Therefore, this test was performed to assess the existence of cross-sectional dependence and to guide the selection of an appropriate panel estimation technique for the study.

Table 5: Cross-sectional dependence tests

Variables	LM Statistic	df	P-value	Decision
ACSIZE	199.67	45	0.000	Reject
ACIND	94.99	45	0.000	Reject
AQ	330.39	45	0.000	Reject
FSIZE	439.69	45	0.000	Reject
FRQ	325.62	45	0.000	Reject

Source: Author's Computation (2026)

The Baltagi et al. LM test was employed to examine the presence of cross-sectional dependence among the panel units. The results indicate statistically significant cross-sectional dependence for all the study variables, including FRQ (LM = 325.62, $p < 0.001$), ACIND (LM = 94.99, $p < 0.001$), ACSIZE (LM = 199.67, $p < 0.001$), FSIZE (LM = 439.69, $p < 0.001$), and AQ (LM = 330.39, $p < 0.001$). Consequently, the null hypothesis of cross-sectional independence is rejected for all variables. The findings suggest that shocks or common factors affecting one bank may also influence other banks in the panel. Therefore, estimation procedures that account for cross-sectional dependence, such as Fixed Effects with Driscoll–Kraay standard errors, are appropriate for the subsequent regression analysis.

4.2.3 Model Specification test

The Hausman specification test was conducted to determine the appropriate panel estimation technique by comparing the fixed-effects and random-effects models. An insignificant result supports the selection of the random-effects model, while a significant result favours the fixed-effects model.

Table 6: Hausman specification test

Test	Chi-square Statistic	Degree of Freedom	P-value
Hausman	35.20	4	0.0003

Source: Author's Computation (2026)

The Hausman specification test was conducted to determine whether the Fixed Effects or Random Effects estimator was more appropriate for the study model. The result produced a Chi-square statistic of 35.20

with 4 degrees of freedom and a probability value of 0.0003. The null hypothesis was rejected at the 5% significance level, indicating a systematic difference between the Fixed Effects and Random Effects estimates. Consequently, the Fixed Effects model was considered more appropriate for the analysis, implying that unobserved firm-specific characteristics are correlated with the explanatory variables.

4.3 Panel regression analysis

The panel regression analysis examined the effects of audit committee characteristics and audit quality on financial reporting quality among the sampled listed deposit money banks. Based on the diagnostic test results, the appropriate panel estimation technique was applied to assess the direction, magnitude, and significance of the relationships and test the study's hypotheses.

Table 7: Fixed Effect Regression Result

Variables	Coefficient	Driscoll-Kraay Std.Error	t-statistic	P-value
ACSIZE	0.0144	0.0050	2.90	0.018
ACIND	0.0171	0.0506	0.34	0.744
AQ	-0.0548	0.0354	-1.55	0.156
FSIZE	0.1196	0.0610	1.96	0.082
ACSIZE X AQ	-0.0169	0.0234	-0.72	0.489
ACIND X AQ	-0.1348	0.0767	-1.76	0.113

Within R Square	0.1324
Wald X Sqaure	31.06
Observations	100
Number of Banks	10
Number of Years	10
Estimator	Fixed Effects
Standard errors	Driscoll-Kraay

Source: Author's Computation (2026)

The results indicate that ACIND has a positive but statistically insignificant effect on FRQ (β = 0.0171, p = 0.744), suggesting that audit committee independence does not significantly influence financial reporting quality. ACSIZE has a positive and statistically significant effect on FRQ (β = 0.0144, p = 0.018), indicating that larger audit committees are associated with higher financial reporting quality. FSIZE has a positive but statistically insignificant effect at the 5% level (β = 0.1196, p = 0.082), while AQ has a negative and insignificant direct effect on FRQ (β = -0.0548, p = 0.156).

For the moderating effects, the coefficient of ACIND × AQ is negative but statistically insignificant (β = -0.1348, p = 0.113). This indicates that AQ does not significantly moderate the relationship between audit committee independence and financial reporting quality. Similarly, ACSIZE × AQ has a negative but statistically insignificant coefficient (β = -0.0169, p = 0.489), indicating that AQ does not significantly moderate the relationship between audit committee size and financial reporting quality.

Overall, the model is statistically significant (Wald $\chi^2 = 31.06$, $p < 0.001$), while the within R^2 of 0.13 indicates that the included variables explain approximately 13.24% of the within-bank variation in FRQ. Therefore, based on the 5% significance level, AQ does not significantly moderate either the ACIND–FRQ or ACSIZE–FRQ relationship.

Table 8: Summary of hypotheses tested

S/N	Hypotheses	Result	Decision
H01	Audit committee size does not significantly affect financial reporting quality of listed deposit money Banks in Nigeria.	Significant	Rejected
H02	Audit committee independence has no significant effect on financial reporting quality of listed deposit money Banks in Nigeria.	Insignificant	Accepted
H03	There is no significance relationship between audit quality and financial reporting quality of listed deposit money Banks in Nigeria.	Insignificant	Accepted
H04	Audit quality does not significantly moderate the relationship between audit committee size and financial reporting quality of listed deposit money Banks in Nigeria.	Insignificant	Accepted
H05	Audit quality has no significant moderating effect on the relationship between audit committee independence and financial reporting quality of listed deposit money Banks in Nigeria.	Insignificant	Accepted

Source: Researcher's compilation, (2026)

4.4 *Discussion of Findings*

The study found that audit committee size has a positive and statistically significant effect on financial reporting quality among listed deposit money banks in Nigeria. This indicates that banks with larger audit committees tend to exhibit better financial reporting quality. From the perspective of Agency Theory, a larger audit committee can enhance monitoring effectiveness by providing greater expertise, experience, and capacity to scrutinise management decisions and financial reporting practices. The finding is consistent with the positive and significant results reported by Salehi et al. (2019), Hassan and Musa (2020), Alhumoudi (2024), Essien (2024), Alqatamin and Alqatamin (2024), Vo and Tran (2024), Audu and Yahaya (2024), and Ashraf et al. (2024), but contradicts the insignificant or context-dependent findings of Hamdan (2018), Velte (2023), and Islam et al. (2023). The result may be explained by the Nigerian banking environment, where a larger pool of audit committee members can strengthen oversight and reduce information asymmetry and agency conflicts, ultimately contributing to more reliable and higher-quality financial reporting.

Similarly, audit committee independence has a positive but statistically insignificant effect on financial reporting quality. In line with Agency Theory, the positive direction suggests that independence can strengthen monitoring and constrain managerial opportunism, although its insignificance indicates that independence alone may be inadequate. This finding agrees with (Hamdan, 2018; Velte, 2023; Islam et al., 2023; Ashraf et al., 2024) but differs from the positive and significant findings of (Klein, 2002; Abbott et al., 2004; Salehi et al., 2019; Hassan & Musa, 2020; Alhababsah, 2021; Alhumoudi, 2024; Alqatamin & Alqatamin, 2024). The inconsistency may be explained by differences in governance structures and the effectiveness of independent members.

Furthermore, audit quality has a negative but statistically insignificant effect on financial reporting quality. According to Agency Theory, high-quality auditing should reduce information asymmetry and enhance reporting credibility; however, the result indicates that audit quality does not significantly perform this monitoring role in the sampled banks. The finding agrees with (Hassan & Bello, 2019; Eyenubo et al., 2021; DeFond & Zhang, 2014; Velte, 2023; Asogba et al., 2024) but contrasts with the positive and significant findings of (Alzoubi, 2018; Salehi et al., 2019; Bala & Gugong, 2020; Ofoegbu &

Okaro, 2021; Wehrhahn & Velte, 2024). The difference may arise from variations in audit regulation, auditor incentives, and measurement approaches.

In the same vein, the interaction between audit committee size and audit quality has a negative but statistically insignificant effect on financial reporting quality among listed deposit money banks in Nigeria. From the perspective of Agency Theory, the negative direction suggests that higher audit quality does not necessarily strengthen the contribution of a larger audit committee to financial reporting quality. However, the insignificant effect indicates that audit quality does not significantly moderate the relationship between audit committee size and financial reporting quality. The finding differs from the significant moderating effects reported by Salehi et al. (2019), Alhababsah (2021), Ashraf et al. (2024), Wehrhahn and Velte (2024), Alhumoudi (2024), Ibrahim and Thomas (2024), Hassan et al. (2025), and Umasabor and Okonkwo (2025), while it is consistent with the insignificant findings reported by DeFond and Zhang (2014), Velte (2023), Islam et al. (2023), and Alqatamin and Alqatamin (2024). The result may suggest that, within the Nigerian banking context, audit quality provides limited additional monitoring benefits in strengthening the effect of audit committee size on financial reporting quality.

Finally, the interaction between audit committee independence and audit quality has a negative but statistically insignificant effect on financial reporting quality. This finding does not support the Agency Theory expectation that independent internal monitoring combined with high-quality external auditing will jointly reduce managerial opportunism. It contradicts the positive moderating effects reported by (Salehi et al., 2019; Alhababsah, 2021; Ashraf et al., 2024; Wehrhahn & Velte, 2024; Alhumoudi, 2024; Ibrahim & Thomas, 2024; Hassan et al., 2025; Umasabor & Okonkwo, 2025) but agrees with (DeFond & Zhang, 2014; Velte, 2023; Islam et al., 2023; Alqatamin & Alqatamin, 2024; Alhumoudi, 2024). The result suggests that audit quality does not significantly reinforce the monitoring role of audit committee independence among the sampled banks.

5. Conclusion

5.1 Conclusion

The study concludes that audit committee characteristics have varying effects on financial reporting quality of listed deposit money banks in Nigeria. Specifically, audit committee independence has a positive but statistically insignificant effect on financial reporting quality, indicating that the presence of independent members alone may not be sufficient to significantly improve the quality of financial reporting. In contrast, audit committee size has a positive and statistically significant effect on financial reporting quality, suggesting that adequately constituted audit committees can provide broader expertise and stronger monitoring of the financial reporting process. The positive effect of firm size also suggests that larger banks may possess greater resources, stronger internal control structures and more sophisticated reporting systems that support higher-quality financial reporting. Overall, the study concludes that the effectiveness of audit committees depends not merely on their formal characteristics but also on their capacity, competence and effectiveness in monitoring management and the financial reporting process.

5.2 Recommendations

Based on the findings, the study recommends that listed deposit money banks should maintain adequately sized audit committees comprising members with relevant accounting, financial and governance expertise, as the significant positive effect of audit committee size demonstrates its importance to financial reporting quality. Banks should also ensure that independent audit committee members possess the competence, experience and authority required to exercise objective oversight, since independence was found to have an insignificant effect. Furthermore, regulatory authorities should strengthen monitoring of audit committee effectiveness beyond mere compliance with independence and composition requirements, while banks should provide continuous training and professional development for committee members and strengthen internal control and financial reporting monitoring mechanisms. These measures would enhance the ability of audit committees to perform effective oversight and ultimately improve the credibility, reliability and quality of financial reporting among listed deposit money banks in Nigeria.

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