Diligent Effort Theory and Audit Committee Effectiveness: A Philosophical and Theoretical Framework for Corporate Financial Reporting Quality

Anthony Idoko Onoja

Department of Accounting, Benue State University, Makurdi

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ABSTRACT

This paper advances and formally articulates the Diligent Effort Theory (DET) as an original theoretical contribution to the corporate governance and financial reporting literature. Emerging from author's PhD Thesis on the effect of audit committee attributes on financial reporting quality of non-financial firms listed on the Nigerian Exchange Group during the period 2014 - 2018, DET posits that audit committee effectiveness is not solely a function of structural attributes such as independence, financial expertise and size but is fundamentally mediated by the personal commitment, dedication, attentiveness, meticulousness and sustained work ethic of the individuals who constitute these committees. The paper situates DET within a positivist epistemological and objectivist ontological tradition and explicitly differentiates DET from the established theoretical landscape of agency theory, positive accounting theory, resource dependency theory, managerial hegemony theory, stewardship theory, upper echelons theory, behavioural agency theory, human capital theory and organizational commitment theory. It operationalises diligent effort through a multidimensional set of observable indicators, presents a formal conceptual model linking structural attributes, diligent effort, governance effectiveness and financial reporting quality, discusses boundary conditions that may moderate the theory's applicability and offers a balanced appraisal of potential criticisms. DET offers a behavioural complement to structuralist governance theories, with significant implications for board appointments, regulatory design, corporate governance codes and future research on governance effectiveness, organizational performance, auditing quality and total quality management.

Keywords: diligent effort theory, audit committee effectiveness, financial reporting quality, corporate governance, behavioural governance, emerging markets

INTRODUCTION

The integrity of corporate financial reporting remains a fundamental pillar of effective capital market governance and one of the most critical concerns in contemporary financial systems. Credible, reliable and decision-useful financial information facilitates the efficient allocation of resources, enhances investor confidence and promotes the overall stability and functioning of market economies (Onoja, 2021). Conversely, failures in financial reporting have repeatedly demonstrated the far-reaching consequences of compromised financial integrity. High-profile corporate scandals involving Enron, WorldCom, Parmalat, Tyco, Cadbury Plc, African Petroleum Plc and, more recently, Carillion, Patisserie Valerie, Wirecard, Luckin Coffee and Nidec Corporation illustrate how financial reporting failures can extend beyond the misrepresentation of financial position to trigger widespread erosion of public trust, substantial losses in shareholder value regulatory sanctions and criminal prosecution of corporate executives.

At the core of the governance response to these failures stands the audit committee, a sub-committee of the board of directors charged with overseeing the financial reporting process, monitoring the external audit function and ensuring that management does not exploit the considerable discretion afforded by accounting standards to misrepresent economic reality. Globally, legislative mandates (Sarbanes-Oxley Act, Companies and Allied Matters Act), corporate governance codes (Smith Report, UK Corporate Governance Code, Nigerian Code

Corporate Governance) and stock exchange listing rules have combined to make audit committee formation a near-universal requirement for listed companies, while progressively specifying minimum standards for their size, independence and financial expertise.

The academic literature has responded with an enormous body of empirical investigation into the relationship between audit committee characteristics including size, independence, financial expertise, meeting frequency, tenure, equity ownership, multiple directorships and gender diversity and various proxies for financial reporting quality (see, inter alia, Zaman, Hudaib & Haniffa, 2011; Ghafran, 2013; Onoja, 2021). Yet the findings remain conspicuously mixed and inconclusive. Studies from the United States, United Kingdom, Australia, Nigeria and across Asia consistently fail to converge, with characteristics that predict improved reporting quality in one setting producing null or even negative associations in another. This persistent inconclusiveness in the literature is not merely a methodological creation. It signals a conceptual gap indicating that the structural attributes of audit committees may be necessary but not sufficient conditions for effective monitoring of corporate financial reporting process.

This paper addresses that gap by formally articulating the Diligent Effort Theory (DET), a theoretical framework developed from empirical research conducted on non-financial firms listed on the Nigerian Exchange Group (NGX) during the recessionary period of 2014-2018. DET proposes that beyond the structural endowment of competence (expertise), position (independence) and experience (tenure), audit committee effectiveness fundamentally requires diligence as the sustained commitment, dedication, attentiveness, meticulousness, doggedness and strong work ethic of the persons appointed to these oversight bodies. Without this dispositional quality, the most elaborately constituted audit committee may operate as little more than a rubber stamp, and with it, even modestly constituted committees may exercise meaningful governance.

The paper proceeds as follows. Section 2 reviews the philosophical underpinnings within which DET is situated. Section 3 examines the existing theoretical landscape: agency theory, positive accounting theory, resource dependency theory, managerial hegemony theory, stewardship theory, upper echelons theory, behavioural agency theory, human capital theory and organizational commitment theory and identifies the conceptual space DET occupies. Section 4 formally articulates DET, its core propositions, assumptions and predictive logic; operationalises diligent effort through a multidimensional indicator set; presents a formal conceptual model and discusses boundary conditions that may moderate the theory's applicability. Section 5 presents the empirical evidence from which the theory is drawn and justified. Section 6 discusses theoretical and practical implications of DET for governance research and regulatory design. Section 7 offers a balanced discussion of potential criticisms and limitations of DET. Section 8 sets out an agenda for future research. Section 9 concludes.

Philosophical Foundations

Every theory is embedded in a philosophical tradition that shapes how the researcher conceptualises reality (ontology) and how knowledge about that reality is acquired (epistemology). DET is grounded in objectivist ontology and a positivist epistemology, positions that necessitate brief clarification given ongoing debates about the philosophy of accounting research.

Ontology and Epistemology

Ontologically, DET treats governance phenomena - audit committee structures, behavioural dispositions and their effects on financial reporting quality as objective realities that exist independently of the observer's perceptions. Audit committee independence has measurable manifestations in committee composition; financial expertise can be operationally defined and verified and financial reporting quality, while contested in measurement, is grounded in discernible attributes such as relevance, faithful representation, comparability, understandability, verifiability and timeliness (IASB Conceptual Framework, 2018). This realist ontology provides the foundation for empirical inquiry into causal relationships between governance mechanisms and reporting outcomes.

Epistemologically, DET follows the positivist tradition in which genuine knowledge derives from the observation and logical analysis of empirical phenomena (Comte, 1853). Watts and Zimmerman (1986) argued that accounting research retains its scholarly credibility by adopting a positivist approach grounded in verifiable data, a view reinforced by Dollery, Jackson and Karayan (1996), who contended that positivism promotes credibility through quantitative rigour. The research from which DET emerges follows this tradition. It employs panel data from audited annual reports of non-financial NGX-listed firms, deploys a conceptually-based Financial Reporting Quality Index (CONFREQI) grounded in the IASB's qualitative characteristics and applies regression analysis to test the hypothesised relationships between audit committee attributes and financial reporting quality.

From Empirical Regularity to Theoretical Proposition

Theory formation in accounting research has classically followed the trajectory of observing systematic empirical patterns, identifying the underlying mechanism and articulating the predictive propositions that follow (Watts & Zimmerman, 1978, 1986; see also Eisenhardt, 1989; Glaser & Strauss, 1967; Yin, 2003, for parallel logics in the broader social sciences). DET follows this trajectory. The observation that audit committee meeting frequency - a direct behavioural proxy for diligence consistently and significantly predicts financial reporting quality, even when structural attributes such as independence and expertise produce mixed or null results, prompts the theoretical question of what explanatory mechanism is at work. The answer this paper proposes is diligent effort: the personal dispositional commitment that transforms structural endowment into actual governance performance.

The Existing Theoretical Landscape and the Space for DET

Corporate governance theory in accounting research draws on several intellectual traditions. Understanding where DET sits requires mapping those traditions and identifying the conceptual gap each leaves. The discussion captures the theoretical framework directly engaged by the empirical research underlying DET namely: agency theory, positive accounting theory, resource dependency theory and managerial hegemony theory and further extend the comparison to other behavioural and individual-level theories whose proximity to DET makes explicit distinction necessary. These include: stewardship theory, upper echelons theory, behavioural agency theory, human capital theory and organizational commitment theory.

Agency Theory (Jensen & Meckling, 1976)

Agency theory is the dominant paradigm for understanding the relationship between audit committees and financial reporting quality. The theory begins with the observation that corporate managers are self-serving agents who, absent monitoring mechanisms, will exploit information asymmetries to advance personal interests at shareholders' expense. Audit committees are conceptualised as monitoring mechanisms on the agents of the principal (shareholders) whose existence and attributes constrain managerial opportunism and thereby improve the quality of financial reporting. Agency theory predicts positive and significant relationships between audit committee independence, expertise, size, frequency of meetings, tenure and financial reporting quality.

The theory's empirical track record is mixed. It predicts relationships that are observed in some settings but not others, suggesting that its structural predictions are incomplete. Specifically, agency theory provides no internal mechanism explaining why structurally identical audit committees differ considerably in their actual monitoring effectiveness. The theory is silent on the dispositional characteristics of the individuals who populate these structural positions.

Positive Accounting Theory (Watts & Zimmerman, 1978, 1986)

Positive accounting theory explains accounting choices by reference to manager utility maximisation, bonus plan hypotheses, debt covenant hypotheses and political cost hypotheses. Applied to audit committee research, PAT predicts that managers given incentives to manipulate earnings will do so unless effectively constrained by well-constituted governance mechanisms. Audit committees appropriately composed of knowledgeable, independent, and diligent members should constrain such opportunism. PAT thus reinforces agency theory's structural predictions while adding the insight that the quality of governance structures is endogenous, that it varies with the strength of managerial incentives to manipulate. PAT predicts positive or negative effects of audit committee attributes on financial reporting quality depending on the effectiveness of those attributes in constraining or permitting managerial opportunism.

Like agency theory, PAT is silent on the personal qualities of committee members beyond their formal attributes. A financial expert is assumed to behave like a financial expert; an independent director is assumed to exercise independent judgment. The theory does not account for the possibility that structural independence and competence may not translate into effective monitoring if the individual lacks the commitment and diligence to apply them.

Resource Dependency Theory (Pfeffer & Salancik, 1978)

Resource dependency theory views the board and its committees as mechanisms for linking the organisation to its external environment, co-opting resources, expertise and legitimacy. The audit committee, on this view, is an asset whose value lies in the network connections, expertise and reputational capital its members bring to the firm. RDT predicts that audit committee members with financial expertise, independence and directorial experience (as evidenced by multiple directorships) enhance financial reporting quality by bringing richer resources to the oversight function. The theory is well-suited to explaining the positive value of diversity and external connections but, like agency theory, is silent on the effort and commitment that determine whether those resources are actually deployed.

Managerial Hegemony Theory (Mace, 1971)

Managerial hegemony theory offers the most pessimistic assessment of board effectiveness. It posits that the modern corporation is effectively controlled by professional managers who use the board of directors as a legitimising figurehead - a “rubber stamp” for decisions already made by management. The theory challenges the assumption that any audit committee, however constituted, exercises genuine independent oversight. Management selects board members, controls information flows and shapes the institutional culture within which committees operate, reducing even well-intentioned audit committee members to passive ratifiers of management's financial reporting choices.

MHT thus provides the theoretical backdrop against which the entire audit committee effectiveness literature must be read. It explains the paradox of governance scandals occurring in firms that nominally possessed appropriately constituted audit committees: the committees may have had the structural credentials without the behavioural disposition to challenge management. DET can be read as a behavioural bridge that explains the conditions under which committees escape the hegemonic trap namely, when their members exercise genuine diligent effort.

Stewardship Theory (Donaldson & Davis, 1991)

Stewardship theory inverts agency theory's assumption of managerial self-interest, proposing that directors and managers, given appropriate organisational structures behave as conscientious stewards of the firm's resources rather than as self-serving agents requiring constraint. Directors are motivated by intrinsic satisfaction, professional reputation and identification with organisational goals; stewardship theory therefore predicts that facilitative structures empowering directors may matter more than monitoring-oriented structures such as independence. Applied to audit committees, stewardship theory would predict that members exercise oversight diligently because doing so aligns with their identity as responsible custodians of the firm.

The theory's principal limitation, from DET's perspective, is that it treats stewardship motivation as a relatively uniform disposition activated by appropriate governance structures, rather than as a variable behavioural quality that differs across individuals holding ostensibly identical structural positions. Stewardship theory explains why some directors might be diligent; it does not supply the operational vocabulary such as meeting engagement, preparation and questioning behaviour through which diligence can be observed, measured and distinguished from merely rhetorical commitment. DET narrows stewardship theory's broad motivational claim into a specific, observable and falsifiable behavioural construct.

Upper Echelons Theory (Hambrick & Mason, 1984)

Upper echelons theory holds that organisational outcomes are partial reflections of the cognitive base, values and observable characteristics like age, tenure, functional background and education of senior executives and by extension, directors. The theory has been successfully extended to board and committee composition research and is reinforced by behavioural finance evidence that individual managerial characteristics systematically influence corporate outcomes beyond formal credentials (Bertrand & Schoar, 2003; Graham, Harvey & Puri, 2013). DET shares upper echelons theory's premise that individual-level characteristics matter for governance outcomes, and draws conceptual support from it.

However, upper echelons theory operationalises individual characteristics mainly through demographic and experiential proxies as age, tenure, education and functional background that are observable but only weakly diagnostic of behavioural engagement. Two directors of identical age, tenure and educational background may exhibit starkly different levels of diligence in committee meetings. DET narrows the focus from demographic proxies for disposition to direct behavioural manifestations of effort, offering a more task-proximate operationalisation specific to the audit committee oversight function than upper echelons theory's trait-based approach allows.

Behavioural Agency Theory (Wiseman & Gomez-Mejia, 1998)

Behavioural agency theory modifies classical agency theory by incorporating insights from prospect theory and behavioural decision research, arguing that managerial risk-taking is shaped by how outcomes are framed relative to a reference point and by the manager's wealth position and risk-bearing capacity. While behavioural agency theory shares DET's departure from purely rational-actor assumptions, its explanatory target is fundamentally different: it addresses risk-taking and decision framing under uncertainty, not the sustained exertion of monitoring effort over time.

An audit committee member's diligence in attending meetings, preparing materials and questioning management is not primarily a function of risk framing but of work ethic, attentiveness and commitment. DET and behavioural agency theory are therefore complementary rather than competing: both reject the assumption that formal position fully determines behaviour, but they theorise different behavioural dimensions of governance actors.

Human Capital Theory (Becker, 1964)

Human capital theory conceptualises the skills, knowledge and experience that individuals accumulate through education, training and practice as a productive stock of capital yielding returns in enhanced performance. Applied to audit committees, human capital theory underlies the rationale for financial expertise requirements: directors who have accumulated accounting, audit or financial management experience possess a stock of human capital that, in principle, equips them to perform oversight tasks competently. The theory is concerned with capacity, what an individual is able to do by virtue of accumulated knowledge rather than with the willingness to deploy that capacity persistently and attentively.

DET addresses precisely this distinction: an audit committee member may possess abundant human capital yet exercise it only sporadically or inattentively, just as another member with more modest human capital may exercise diligent, sustained engagement that substantially compensates for the capacity gap. DET thus complements human capital theory by theorising the activation condition namely: diligent effort, through which accumulated human capital is converted into governance performance.

Organizational Commitment Theory (Meyer & Allen, 1991)

Organizational commitment theory, particularly in its three-component formulation distinguishing affective, continuance and normative commitment, offers perhaps the closest behavioural similarity to DET within the organisational behaviour literature. Affective commitment as an emotional attachment to and identification with an organisation is theorised to predict discretionary effort and engagement, a logic resembling DET's claim that disposition mediates performance.

However, organizational commitment theory is directed at the relationship between the individual and the organisation as a whole, not at task-specific behavioural engagement within a particular oversight function. A director may be affectively committed to the firm in general while nonetheless being a perfunctory and disengaged participant in audit committee deliberations specifically, because organisational commitment does not necessarily translate into task-level diligence in a specific governance role. DET narrows the unit of analysis from organisation-directed commitment to task-directed diligent effort within the specific oversight function of the audit committee, providing a sharper and more directly testable construct for governance research.

Synthesis: The Residual Conceptual Gap

Table 1 Comparison across Theoretical Traditions

Theory	Core Explanatory Mechanism	Treatment of Behavioural Disposition	Principal Limitation Relative to DET
Agency Theory	Monitoring constrains managerial opportunism	Absent — assumes structural role performs function	Cannot explain effort variation within identical structures
Positive Accounting Theory	Manager utility maximisation / incentive alignment	Absent — assumes credentials are uniformly applied	Silent on whether expertise is actively deployed
Resource Dependency Theory	Boards as resource-linkage mechanisms	Absent — assumes resources brought are resources used	Does not theorise effort to deploy resources
Managerial Hegemony Theory	Management dominance neutralises board independence	Implicit, undifferentiated — assumes uniform passivity	No account of diligence as an escape condition
Stewardship Theory	Intrinsic identification with the organisation	Present, but assumed uniform once structures are facilitative	Lacks operational, task-specific behavioural indicators
Upper Echelons Theory	Executive/director characteristics shape outcomes	Present, but trait/demographic-based	Demographic proxies weakly diagnostic of effort
Behavioural Agency Theory	Risk framing and loss aversion shape decisions	Present, but confined to risk preference	Targets risk-taking, not sustained oversight diligence
Human Capital Theory	Accumulated skill/knowledge yields capacity	Present, but capacity-based, not effort-based	Does not distinguish capacity from willingness to exert effort
Organizational Commitment Theory	Affective/continuance/normative attachment	Present — closest behavioural analogue	Organisation-directed, not task-specific to oversight
Diligent Effort Theory (DET)	Diligent effort as dispositional mediator	Central, task-specific, and behaviourally observable	Integrates and operationalises the gap left by the above

Source: Author's compilation (2026)

Table 1 synthesises the comparison across the nine theoretical traditions reviewed above, juxtaposing each theory's core explanatory mechanism and its treatment of individual behavioural disposition against the residual limitation that DET addresses.

Across all nine comparator traditions, a shared lacuna is apparent: each theorises either the structural attributes of governance actors or a general motivational orientation, but none provides a task-specific, behaviourally observable account of the sustained effort exerted within the audit committee oversight function specifically. They treat independence as a structural variable, not a behavioural commitment; financial expertise as a credential, not the active deployment of that credential; and organisational attachment as diffuse rather than task-bound. This is the conceptual space into which DET is introduced. It does not replace the existing theoretical framework but supplements it by adding the missing behavioural dimension: the disposition of diligent effort that mediates between structural and motivational endowment and actual governance performance.

The Diligent Effort Theory: Formal Articulation

Origin and Conceptual Etymology

"Diligent effort" is not merely a colloquial expression. In jurisprudence, it constitutes a recognised legal standard of care, connoting "carefulness," "due diligence" and "wholehearted performance of an obligation" (Black's Law Dictionary). The concept combines two English words, "diligent" (from the Latin diligentia: careful attention and persistence) and "effort" (from the Old French esfort: determined exertion) into a compound that describes the quality of performance as much as its quantity. DET borrows this legal-philosophical meaning and applies it to the governance context, arguing that the obligation of audit committee members is not merely to be present but to be persistently, attentively and determinedly engaged with their oversight responsibilities.

Core Theoretical Proposition

The central proposition of DET may be stated as follows:

Proposition (DET): Audit committee effectiveness in ensuring corporate financial reporting quality is a joint function of structural attributes (competence, independence, experience) and behavioural disposition (diligent effort). The structural attributes are necessary but insufficient conditions for effective governance; diligent effort is the dispositional mediator that translates structural endowment into actual monitoring performance. In the absence of diligent effort, audit committees will fail to fulfill their oversight mandate regardless of formal attributes; in the presence of diligent effort, the positive impact of structural attributes on financial reporting quality will be substantially enhanced.

Core Assumptions

DET is built on the following explicit assumptions:

i. Individual agency: Individuals appointed to audit committees possess personal dispositional qualities such as work ethic, commitment, conscientiousness, perseverance that vary across persons and are not fully determined by their structural position. The same level of formal independence or expertise may manifest as radically different governance behaviour depending on the individual.

ii. Task engagement: Effective oversight requires not only the capacity to perform oversight tasks (derived from expertise and experience) but the willingness to remain focused on those tasks for as long as necessary, to resist procrastination and to engage proactively with complex financial reporting issues.

iii. Dispositional stability: The work ethic and commitment of audit committee members is a relatively stable personal characteristic, not merely a function of formal remuneration or structural incentive. While incentive structures (such as equity ownership) may reinforce diligent effort, they do not entirely explain it.

iv. Complementarity: Diligent effort and structural attributes are complements, not substitutes. The highest quality governance arises when members possess both structural endowment and diligent effort. Structural credentials without diligent effort produce ceremonial governance; diligent effort without structural endowment may produce well-intentioned but insufficiently informed governance.

v. Observability: While diligent effort is dispositional and not directly observable, it manifests in observable governance behaviours most notably the frequency and quality of engagement in audit committee meetings, the depth of interaction with external auditors, and the thoroughness of oversight of financial reporting processes. These behavioural manifestations provide empirical traction for testing DET.

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Theoretical Predictions

DET generates the following specific theoretical predictions applicable to audit committee governance research:

i. Meeting frequency will be positively and significantly associated with financial reporting quality because it is the most direct behavioural manifestation of diligent effort. That is, the more frequently a committee meets the more diligent and active it becomes in its oversight role.

ii. Multiple directorships will be negatively associated with financial reporting quality because directors serving on numerous boards are likely to be too busy, too thinly spread to exercise genuine diligent effort on any single audit committee. The constraint on attention and focus is the mechanism.

iii. Financial expertise will have a positive association with financial reporting quality, but this relationship will be moderated by diligent effort as experts who engage diligently will translate their competence into governance benefits; those who do not will not.

iv. Independence will have a positive association with financial reporting quality, but independence without diligent effort - the commitment and determination to exercise that independence in challenging management will produce attenuated or null effects.

v. Equity ownership will be positively associated with financial reporting quality because directors with a personal financial stake in the company's performance have stronger motivational incentives to apply diligent effort to their oversight role, a mechanism that agency theory partially captures but does not fully explain.

vi. Composite audit committee effectiveness (combining independence, expertise, meeting frequency and size) will be more strongly and consistently associated with financial reporting quality than any single structural attribute, because the composite measure captures more dimensions of both structural endowment and diligent effort simultaneously.

Operationalising Diligent Effort: Towards a Multidimensional Measurement Model

As articulated thus far, diligent effort has been anchored empirically to a single behavioural proxy - meeting frequency. While meeting frequency offers the operational plasticity that makes DET readily testable with archival data (it is consistent with the “upper echelons” logic of Hambrick and Mason, 1984, and with behavioural-finance evidence that individual characteristics shape corporate outcomes; Bertrand & Schoar, 2003; Graham, Harvey & Puri, 2013), it is a coarse indicator that conflates mere attendance with substantive engagement. A more rigorous operationalisation of diligent effort requires a multidimensional indicator set capturing the quality, not merely the frequency, of committee members' engagement. Table 2 sets out seven such indicators, together with illustrative operational measures and likely data sources for future empirical validation.

Table 2 DET Multidimensional Indicators: Operational Measures

Dimension	Indicator	Illustrative Operational Measure	Likely Data Source
Attendance quality	Full-duration, substantive presence (beyond a simple present/absent count)	Proportion of meeting duration attended; in-person versus remote or proxy attendance	Board minutes; annual report disclosures
Meeting preparation	Evidence of advance review of materials before meetings	Lead time between document circulation and meeting date; chair attestation of pre-reading	Committee secretary records; self-report survey items
Participation intensity	Volume and substantiveness of	Coded minutes (issues raised, follow-up items generated per member)	Coded board/committee minutes; structured observation

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	member contributions during deliberations		
Engagement with auditors	Frequency and depth of private sessions with external (and internal) auditors	Number and duration of private auditor sessions; substantive issues raised	Audit committee report disclosures; auditor communication logs
Oversight activities	Breadth of oversight tasks actually undertaken (risk review, internal control testing, whistleblower follow-up)	Checklist compliance against committee charter mandate	Committee charter audits; internal audit reports
Questioning behaviour	Substantive challenge of management's reporting representations	Frequency and depth of recorded queries to management; rate of resolution	Coded minutes; post-meeting action-item tracking
Governance effectiveness assessment	Periodic structured self- and peer-evaluation of committee and individual performance	Scores from board evaluation instruments; 360-degree peer assessment	Board evaluation reports; external governance reviews

Source: Author's compilation (2026)

These seven indicators are not proposed as an exhaustive taxonomy but as a foundation for constructing a composite Diligent Effort Index (DEI) suitable for survey-based or mixed-method empirical validation, complementing the single-proxy archival measure (meeting frequency) on which the present study's empirical findings rest. Future operationalisations might weight or aggregate these indicators using exploratory and confirmatory factor analysis to establish a psychometrically defensible latent construct, a research priority discussed further in Section 8.

A Conceptual Model of DET

To clarify the relationships posited by DET and to facilitate future empirical testing, Figure 1 presents a formal conceptual model.

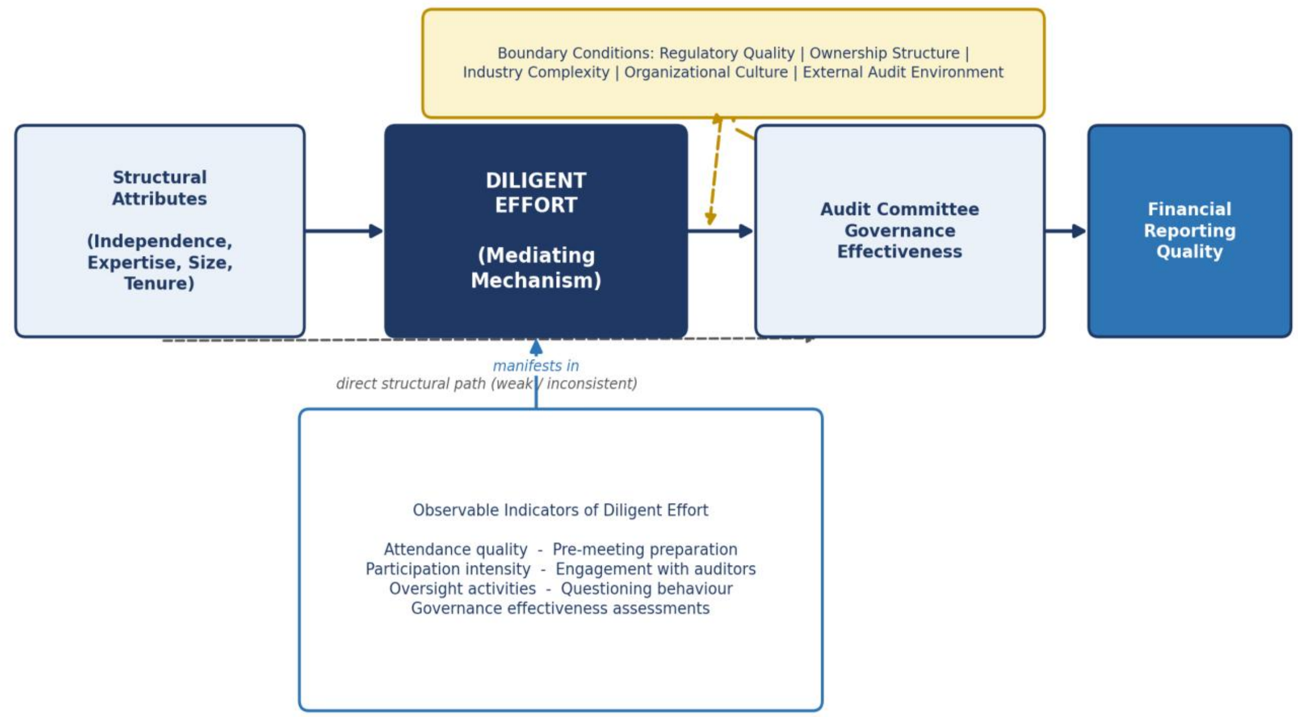

Figure 1 A Conceptual Model of Diligent Effort Theory (DET)

The model depicts diligent effort as the central mediating mechanism between structural attributes (independence, expertise, size, tenure) and audit committee governance effectiveness, which in turn determines financial reporting quality. The dashed horizontal line represents the weak and empirically inconsistent direct path from structural attributes to governance effectiveness documented in the literature reviewed in Section 1, the path that DET argues is incomplete without the mediating influence of diligent effort. The lower panel shows the seven observable indicators (Section 4.5) through which diligent effort manifests and can be measured. The upper panel identifies the boundary conditions (Section 4.7) that are theorised to moderate the strength of the diligent-effort-to-governance-effectiveness link.

Boundary Conditions

DET, as articulated above, is presented as a general theoretical mechanism. However, theoretical sophistication requires explicit acknowledgement that the strength of the diligent-effort-to-governance-effectiveness relationship is unlikely to be uniform across all institutional settings. Five boundary conditions are identified below as plausible moderators of DET's central proposition, each warranting empirical investigation in future research.

i. Regulatory quality: In jurisdictions with strong regulatory enforcement, statutory and listing-rule minimum standards may already compel a baseline level of structural compliance, such that diligent effort exerts a comparatively larger marginal effect on governance outcomes by filling the residual gap between formal compliance and substantive monitoring. Conversely, in weak-enforcement environments such as the Nigerian setting from which DET's empirical warrant is drawn, diligent effort may be required to compensate for the absence of external regulatory pressure altogether, suggesting the effect of diligent effort may be most pronounced where regulatory quality is weakest.

ii. Ownership structure: In firms with concentrated or family ownership, controlling shareholders may exercise informal monitoring that substitute for formal audit committee diligence, potentially attenuating the marginal contribution of diligent effort. In widely-held or institutionally-owned firms, where ownership dispersion limits direct shareholder monitoring, the audit committee's diligent effort may bear a disproportionately larger share of the total monitoring burden.

iii. Industry complexity: Industries characterised by complex financial instruments, significant estimation uncertainty, or rapidly evolving accounting treatments (e.g., financial services, oil and gas, technology) plausibly demand a higher threshold of diligent effort to achieve equivalent governance effectiveness than industries with comparatively simple reporting requirements. DET's predictions may therefore require recalibration of effect-size expectations across industry contexts.

iv. Organisational culture: An organisational culture that values challenge, transparency and psychological safety in board deliberations is likely to amplify the governance returns to individual diligent effort, whereas a deferential or hierarchical culture may suppress the expression of diligence even among well-intentioned and capable committee members, irrespective of their personal disposition.

v. External auditing environment: The quality, independence and rigour of the external audit function may interact with audit committee diligence in ways that are either complementary or compensatory. Where external audit quality is high, diligent audit committees may derive amplified governance benefits from synergistic engagement (a pattern consistent with the AQACEF finding reported in Section 5.3); where external audit quality is low, diligent effort by the audit committee may need to substitute for, rather than complement, an otherwise weak external assurance function.

These boundary conditions are not intended as an exhaustive list, nor are they mutually exclusive; several may interact (for example, weak regulatory quality and concentrated ownership often co-occur in emerging markets). Their explicit articulation is intended to guard against overgeneralisation of DET's propositions and to provide testable moderating hypotheses for the cross-national and sector-specific research agenda set out in Section 8.

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DET as a Behavioural-Governance Theory

DET may be classified as a behavioural-governance theory in that it bridges the structural focus of conventional governance theories with the individual-level behavioural insights surveyed in Section 3. Unlike strictly psychological theories, DET does not require measurement of underlying personality traits. It is operationally grounded in observable behavioural manifestations most notably meeting frequency as an archival proxy, supplemented by the multidimensional indicator set proposed in Section 4.5 that are, in principle, available from annual reports, board minutes and structured survey or observational instruments. This operational tractability, combined with the explicit conceptual model and boundary conditions is intended to give DET the theoretical sophistication and empirical traction necessary for sustained future research.

Empirical Justification: Evidence from Nigeria

Research Context

The empirical foundation for DET is derived from a comprehensive panel study of non-financial firms listed on the Nigerian Exchange Group (NGX) over the period 2014-2018, a period that coincided with a significant economic recession in Nigeria, during which management faced heightened incentives to manage earnings to meet or beat market expectations. This context makes the period an especially powerful setting for investigating audit committee effectiveness: if audit committees exercise genuine monitoring influence, it should manifest when governance challenges are most acute.

The study covers 10 non-financial sectors of the NGX (agriculture, conglomerates, construction/real estate, consumer goods, healthcare, industrial goods, information and communications technology, natural resources, oil and gas, and services), representing more than 90 percent of NGX-listed firms by market capitalisation. Financial sector firms were excluded due to their distinct regulatory environments and reporting conventions. Financial reporting quality was measured using both a primary direct measure, the Conceptually-Based Financial Reporting Quality Index (CONFREQI) operationalising the IASB's qualitative characteristics of relevance, faithful representation, comparability, understandability, and timeliness and earnings-quality proxies.

Audit Committee Attributes Examined

The following audit committee attributes were operationalised as independent variables: size (ACSIZE), independence (ACIND), financial expertise (ACFEX), meeting frequency (ACM), tenure (ACTEN), equity ownership (ACEQ), multiple directorships (ACDIR), gender diversity (ACG), a composite effectiveness measure (ACEF) following Zaman et al. (2011) and Ghafran (2013), and the interaction between quality of external audit and audit committee effectiveness (AQACEF).

Key Empirical Findings

The empirical findings provide direct and multi-dimensional support for the core propositions of DET. The most theoretically significant findings include the following:

Meeting Frequency (ACM): Meeting frequency emerged as one of the strongest and most consistent predictors of financial reporting quality across multiple model specifications. This finding supports DET's first prediction and provides its most direct empirical anchor: frequency of meetings is the most observable behavioural proxy for diligent effort, and its positive association with financial reporting quality supports the proposition that diligence, not merely structural composition, drives monitoring effectiveness.

Multiple Directorships (ACDIR): Consistent with DET's second prediction, audit committee members holding multiple directorships were associated with lower financial reporting quality. The mechanism is precisely that which DET proposes: directors spread across multiple boards cannot devote the sustained attention and commitment that diligent effort demands. They lack the focus and perseverance that effective oversight requires.

Composite Effectiveness (ACEF): The composite audit committee effectiveness measure that combined independence, expertise, meetings, and size into a single construct was positively and significantly associated with financial reporting quality. This result supports DET's prediction that the joint action of structural attributes and behavioural engagement (captured in part by meeting frequency within the composite) produces stronger governance outcomes than any single attribute in isolation.

External Audit Interaction (AQACEF): The significant positive association between the interaction of external audit quality and audit committee effectiveness on financial reporting quality is consistent with DET's propositions. It suggests that diligent audit committees, which engage more actively with external auditors, derive amplified benefits from high-quality external auditing, a synergistic effect grounded in the behavioural engagement of committee members.

Equity Ownership (ACEQ): The positive association between audit committee members' equity ownership and financial reporting quality is consistent with DET's fifth prediction: financial stake provides an additional motivational foundation for diligent effort, reinforcing the dispositional commitment of members to rigorous oversight.

Independence and Expertise (ACIND, ACFEX): While independence and financial expertise produced results that were directionally consistent with agency theory predictions, their statistical significance was more variable across model specifications and time periods - a pattern consistent with DET's proposition that structural attributes have attenuated or inconsistent effects in the absence of the diligent effort that activates them.

The Recessionary Context as a Crucible of Diligence

The choice to study audit committee effectiveness during the recessionary period of 2014-2018 adds an important dimension to the justification of DET. During economic recession, management incentives to manage earnings through the discretion afforded by accounting standards intensify. The observation that audit committees with high meeting frequency and composite effectiveness produced better financial reporting quality precisely during this period of heightened governance challenge provides particularly compelling support for DET: diligent audit committees are those that rise to the challenge when the governance imperative is most acute.

Theoretical Implications of DET

Contribution to Corporate Governance Theory

DET makes four principal theoretical contributions to the corporate governance literature. First, it introduces the concept of diligent effort as analytically distinct governance variable separable from structural attributes and independently significant in predicting monitoring effectiveness, and explicitly differentiated (Section 3) from the closest competing behavioural constructs. This is an advance beyond structuralist governance theories that conflate position with behaviour.

Second, DET provides a theoretical explanation for the persistent inconsistency in empirical findings on audit committee attributes and financial reporting quality. If structural attributes are necessary but insufficient conditions for effective monitoring, we would expect empirical studies that focus exclusively on structural variables to produce inconsistent results which are precisely what the literature documents. DET predicts this pattern and explains it by reference to the missing dispositional dimension.

Third, DET provides a new lens through which to re-interpret the managerial hegemony theory critique of board effectiveness. MHT argues that boards are ineffective because management dominates; DET offers a complementary explanation: boards fail not only because management is dominant but because directors lack the diligent effort to challenge that dominance. DET thus suggests that MHT's pessimism is not inherent but contingent on the dispositional qualities of individual directors.

Fourth, DET bridges the macro-level structural analysis of governance research with the micro-level behavioural insights of organisational psychology, suggesting a productive integration of these traditions for future theory development.

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Contribution to Financial Reporting Theory

Financial reporting quality has traditionally been theorised as a function of accounting standards (the normative tradition), earnings management incentives (the positive accounting tradition), and governance mechanisms (the corporate governance tradition). DET enriches the governance tradition by showing that it is not only the existence and formal constitution of governance mechanisms that matters, but the quality of human engagement within those mechanisms. In this sense, DET echoes Jonas and Blanchet's (2000) insight that financial reporting quality is a function of the process including the people who oversee that process, not merely the output. The faithfulness of financial information is ultimately a product of human effort and DET theorises the conditions under which that effort is diligent.

Applicability beyond Audit Committees

While DET is articulated in the audit committee context, its core logic is portable to other governance and organisational phenomena. The theory is applicable to any governance or oversight function where: (a) structural attributes are formally specified but behavioural compliance is not guaranteed; (b) individual dispositional qualities mediate between structural position and actual performance; and (c) observable behavioural proxies for diligent effort are available. This includes, but is not limited to: board of directors oversight generally; internal audit function quality; total quality management implementation; regulatory compliance functions; external auditor performance; and organisational performance management. The paper commends DET to researchers in these adjacent fields as a potentially fertile framework for explanation and prediction.

Implications for Regulatory Design

DET has significant implications for the design of corporate governance codes and audit committee regulations. Current regulatory frameworks in Nigeria as elsewhere are predominantly structural in orientation: they mandate minimum size, specify independence requirements and require at least one member with financial expertise. DET suggests that these structural prescriptions, while necessary, are insufficient. Regulatory frameworks should additionally address:

i. Qualitative assessment of diligence: Regulators and boards should evaluate not only the formal credentials of audit committee nominees but their track record of diligent engagement in previous governance roles. Board appointment processes should incorporate behavioural indicators of commitment and work ethic, drawing on the indicator set proposed in Section 4.5.

ii. Caps on multiple directorships: In Nigeria, unlike in the UK and US, there is no regulatory limit on the number of concurrent directorships. DET provides a strong theoretical justification grounded in empirical evidence for such limits. The Nigerian CG Code should be revised to discourage multiple directorships that compromise the attentiveness and focus of audit committee members.

iii. Meeting requirements: Minimum meeting frequency requirements are already embedded in most governance codes (Nigerian CG Code 2018 recommends four per annum). DET supports arguments for higher minimum standards, particularly for companies in sectors with complex financial reporting challenges and for disclosure requirements that report not merely the number of meetings but the attendance rate and the substantive agenda.

iv. Continuing governance education: DET implies that diligent effort must be informed effort. Regulators should mandate continuing professional development for audit committee members to ensure that their dispositional commitment to oversight is supported by current knowledge of evolving financial reporting standards and risks.

Implications for Board Appointment Practices

For boards of directors, DET implies that the search for effective audit committee members should not be constrained to a credential-based screening process. The identification and appointment of individuals with

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demonstrable records of diligent effort in governance roles, evidenced by high meeting attendance, proactive engagement with auditors, substantive questioning of management on reporting matters and a reputation for thoroughness, should be as important as the possession of formal financial expertise or independence credentials. Nominating committees should explicitly incorporate behavioural assessment into director selection processes.

Limitations of DET

Scholarly credibility is strengthened, not weakened, by proactive engagement with the limitations of a new theoretical framework. This section identifies six potential lines of criticism that informed readers may raise against DET and offers a candid appraisal of each.

The Risk of Circularity

A first criticism concerns the risk of circularity or tautology. If diligent effort is inferred from the very behavioural proxies (such as meeting frequency) used to demonstrate the theory's predictive validity, the theory risks becoming unfalsifiable. Diligence is whatever produces good reporting outcomes, observed after the fact. This is a legitimate concern common to many dispositional constructs in the social sciences. DET mitigates, but does not eliminate this risk by anchoring its core empirical claim to a single, ex-ante behavioural proxy (meeting frequency) that is recorded independently of, and prior to, the financial reporting quality outcome it is used to predict. Nonetheless, the multidimensional indicators proposed in Section 4.5 remain conceptually but not yet empirically distinct from governance effectiveness itself and independent validation establishing that the indicators of diligent effort are measurably distinct from, and temporally prior to, the governance outcomes they are theorised to predict. This is a genuine and unresolved empirical task.

Operationalisation and Measurement Challenges

A second and related criticism is that diligent effort, as a latent and partly unobservable disposition, is difficult to measure with the rigour the theory's propositions demand. Archival proxies such as meeting frequency are blunt instruments that conflate attendance with engagement, while the richer indicators proposed in Section 4.5 including preparation, questioning behaviour, participation intensity require data (coded minutes, survey instruments, peer assessments) that are not routinely disclosed and may be costly or impractical to collect at the scale needed for large-sample archival testing. This is acknowledged as a genuine constraint on the theory's near-term empirical tractability, and is a central reason why Section 8 prioritises instrument development and validation as an immediate research task rather than treating the multidimensional indicator set as already empirically operational.

Generalisability beyond a Single Institutional Context

DET's empirical warrant rests on one emerging-market setting - Nigeria, during one recessionary window (2014-2018). Critics may reasonably question whether the theory's propositions, particularly the relative weight assigned to diligent effort versus structural attributes, would replicate in institutional environments with stronger regulatory enforcement, more dispersed ownership, or more mature governance cultures. The boundary conditions articulated in this paper are an explicit attempt to anticipate this criticism rather than to resolve it; they remain theoretical propositions requiring cross-national empirical testing before DET's claim to generalisability can be regarded as established rather than plausible.

7.4 Possible Conceptual Overlap with Existing Constructs

A fourth criticism, anticipated directly by the comparative analysis in Section 3, is that DET may repackage elements already present in stewardship theory, upper echelons theory, and organizational commitment theory under a new label rather than offering a genuinely novel construct. The response developed in Section 3 is that DET does not claim to displace these adjacent theories but to occupy a residual conceptual space - a task-specific, behaviourally observable construct applied to the audit committee oversight function - that none of the nine comparator theories formally articulates or operationalises in this manner. Whether this differentiation is sufficient to establish DET's originality, as opposed to representing an incremental synthesis of existing

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constructs, is ultimately a judgment the scholarly community must render through citation, replication, and critique.

Endogeneity and Reverse Causality

A fifth criticism, common to governance research generally, concerns the possibility of endogeneity and reverse causality. It is plausible that firms with a pre-existing culture of high reporting quality select or cultivate more diligent audit committee members, rather than diligence causing improved reporting quality; equally, unobserved firm-level characteristics (such as overall governance quality or managerial integrity) may drive both diligent effort and reporting quality simultaneously, producing a spurious association. The cross-sectional and panel methods underlying the empirical findings reported in Section 5 cannot definitively rule out this possibility. Addressing it convincingly will require the longitudinal and quasi-experimental designs discussed in Section 8.3 and Section 8.8.

The Risk of "Diligence-Washing"

Finally, as DET gains regulatory or practitioner traction, there is a risk that firms respond by performing diligence symbolically for instance, inflating meeting counts or formal attendance records without corresponding improvements in the substantive quality of oversight, a pattern of box-ticking compliance well documented elsewhere in the governance literature. This risk is precisely why Section 4.5 argues for multidimensional proxies of diligent effort. A measurement regime relying solely on meeting frequency is the most vulnerable to symbolic compliance, whereas indicators capturing preparation, questioning behaviour, and auditor engagement are comparatively more costly to fabricate and more diagnostic of genuine diligence.

Taken together, these six criticisms do not undermine the core contribution of DET, but they do delimit its current evidentiary status. DET should be understood, at this stage, as a theoretically well-differentiated and empirically anchored framework whose strongest claims rest on a single-country dataset and whose richer multidimensional and cross-contextual claims remain testable propositions for the research agenda set out below.

Future Research Directions

DET opens several productive avenues for future research. These are organized into methodological extensions and substantive applications.

Instrument Development and Validation

The most immediate research imperative is the development and psychometric validation of a Diligent Effort Index (DEI) operationalising the seven dimensions proposed in Section 4.5. This would involve item generation, pilot testing with audit committee chairs and members and confirmatory factor analysis to establish the index's reliability and convergent and discriminant validity relative to adjacent constructs such as organisational commitment and stewardship orientation.

Survey-Based and Mixed-Method Validation

Building on instrument development, future research should deploy survey methods targeting audit committee chairs and members on their subjective experience of committee engagement, triangulated where possible with archival records (meeting minutes, attendance logs) to assess convergent validity between self-reported and archivally observed diligence.

Experimental Designs

Experimental and quasi-experimental designs that manipulate dispositional commitment for example, through vignette studies presenting identical structural scenarios (independence, expertise) while varying described behavioural engagement while holding structural attributes constant offer a promising avenue for isolating the causal contribution of diligent effort from the structural attributes with which it is naturally correlated in observational data, directly addressing endogeneity concerns.

Qualitative Governance Studies

Qualitative research including interview-based studies with audit committee members and chairs and, where access permits, direct observation or ethnographic study of committee meetings would provide richer process-level evidence of how diligent effort is enacted in practice than archival proxies can capture. Such studies could also illuminate the antecedents of diligent effort (professional socialisation, prior governance experience, organisational culture) and provide the qualitative grounding needed to refine the proposed indicator set.

Cross-National Comparative Studies

DET was developed in the Nigerian context, an emerging economy characterised by relatively weak regulatory enforcement, concentrated ownership structures and a nascent audit committee tradition. Whether the theory's predictions hold in developed economies with stronger enforcement environments, more developed capital markets and more mature governance cultures is an empirical question. Cross-national comparative studies would test the universality of DET's propositions and provide direct empirical tests of the boundary conditions identified in Section 4.7, particularly regulatory quality and ownership structure.

Sector-Specific Applications

Financial sector firms e.g. banks and insurance companies were excluded from the study population on account of their distinct regulatory environments. These sectors are precisely those in which governance failures produce the most catastrophic systemic consequences. DET may have heightened relevance in the financial sector, where the complexity of financial reporting and the opacity of risk exposures make diligent oversight especially difficult and especially important, directly engaging the industry-complexity boundary conditions. Sector-specific applications of DET, including banking, insurance and publicly owned enterprises, are warranted.

Diligent Effort and Total Quality Management

Beyond corporate governance, DET has potential applications in the total quality management (TQM) literature, where sustained individual commitment and work ethic are similarly identified as determinants of quality outcomes that are not fully captured by structural or process indicators. The parallelism between the audit committee oversight function and the quality oversight function in TQM organisations suggests that DET might generate productive hypotheses about quality management effectiveness.

Longitudinal Dynamics of Diligent Effort

DET treats diligent effort as a relatively stable dispositional quality. However, tenure on the audit committee may affect both the accumulation of firm-specific knowledge (positively) and the risk of complacency or capture by management (negatively). Longitudinal research tracking the diligent effort of individual audit committee members across their tenure would clarify the dynamic relationship between length of service and the quality of governance engagement, while also providing the strongest available evidence on the direction of causality raised as a limitation in Section 7.5.

CONCLUSION

This paper has formally articulated the Diligent Effort Theory (DET) as an original theoretical contribution to the corporate governance and financial reporting literature. DET proposes that audit committee effectiveness and through it, corporate financial reporting quality is fundamentally mediated by the diligent effort of audit committee members: their commitment, dedication, attentiveness, meticulousness, doggedness and sustained work ethic. These dispositional qualities are analytically distinct from, and complementary to, the structural attributes namely: independence, expertise, size and tenure that existing governance theories foreground.

DET is situated within a positivist epistemological tradition and objectivist ontology, drawing its empirical warrant from a comprehensive study of non-financial NGX-listed firms during the recessionary period of 2014-2018. It supplements the established theoretical frameworks reviewed in Section 3, occupying the conceptual space they leave unfilled: the gap between having the structural capacity to monitor and actually monitoring with the dedication and thoroughness that effective governance demands. The formal conceptual model presented in Section 4.6, the multidimensional operationalisation proposed in Section 4.5 and the boundary conditions discussed in Section 4.7 together provide the theoretical scaffolding needed for the next stage of empirical testing, while the balanced appraisal of limitations in Section 7 delimits the claims that current evidence can support.

The practical implications of DET are concrete and urgent. Governance codes that focus exclusively on structural attributes of audit committees are missing a critical dimension of what makes oversight effective. Regulators should attend to limits on multiple directorships, meaningful meeting requirements, qualitative assessment of nominees' work ethic and track record and continuing professional development. Nominating committees should seek alongside certificated experts and independent directors, individuals who bring demonstrable records of diligent effort to their governance responsibilities.

In the corporate scandals that motivated both the academic literature and the regulatory responses this paper reviews from Enron and WorldCom to Cadbury Plc and African Petroleum in Nigeria, the common thread was not the absence of audit committees but the absence of diligent effort within them. DET names this phenomenon, theorises it, differentiates it from neighbouring constructs, operationalises it, models it and provides empirical evidence for its significance, while candidly acknowledging the boundaries of that evidence. It is the thesis of this paper that no governance reform agenda however comprehensive in its structural prescriptions can succeed in the long run without attending to the diligence of the individuals at its heart.

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Note On Theoretical Originality

The Diligent Effort Theory (DET) is an original theoretical framework developed from doctoral research on audit committee attributes and financial reporting quality in Nigeria. As of the date of this publication, a search of major academic databases including Web of Science, Scopus, JSTOR, SSRN and Google Scholar yields no prior usage of "Diligent Effort Theory" as a named theoretical framework in the corporate governance, accounting or management literatures. This paper constitutes the first formal publication and articulation of DET and is intended to serve as the primary citable source for all future scholarly reference to this theory. Researchers wishing to apply, test, extend or critique DET are directed to cite this paper as the originating source.