Auditor Independence, Audit Committee Effectiveness and Financial Reporting Quality of Listed Manufacturing Firms in Nigeria

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ABSTRACT

Recurring instances of financial reporting failure and earnings management in Nigeria have intensified interest in the audit governance mechanisms expected to safeguard the reliability of corporate financial statements, yet evidence on which specific audit attributes actually improve financial reporting quality among listed manufacturing firms remains inconclusive. This study examined the effect of auditor independence and audit committee effectiveness on the financial reporting quality, proxied by accruals quality, of manufacturing firms listed on the Nigerian Exchange Group.

Anchored on Agency Theory, the study adopted an ex-post facto research design within a longitudinal panel framework. All fifty manufacturing firms listed on the Nigerian Exchange Group were studied on a census basis over the period 2015 to 2024, yielding 500 firm-year observations drawn from audited annual financial statements. Data were analysed using descriptive statistics, Pearson correlation, the Hausman specification test, and panel regression.

The Hausman test favoured the random effects estimator ($\chi^2 = 5.82$, $p = 0.3276$). Auditor independence exerted a positive and significant effect on financial reporting quality ($\beta = 0.276842$, $t = 3.83823$, $p = 0.0002$), and audit committee effectiveness also exerted a positive and significant effect on financial reporting quality ($\beta = 0.341882$, $t = 4.01177$, $p = 0.0001$), with the model jointly explaining 57.82 per cent of the variation in financial reporting quality.

The study concludes that auditor independence and audit committee effectiveness are complementary governance mechanisms that both strengthen financial reporting quality, and recommends that listed manufacturing firms safeguard auditor independence from managerial influence and strengthen audit committees through the appointment of financially literate members.

Keywords: Auditor Independence; Audit Committee Effectiveness; Financial Reporting Quality; Accruals Quality; Listed Manufacturing Firms.

INTRODUCTION

Auditing practices and financial reporting quality have become central issues in corporate governance in emerging economies such as Nigeria, where recurring instances of financial reporting failure and earnings management have intensified the need for audit mechanisms that can strengthen the transparency and accountability of corporate reports. The manufacturing sector, spanning food products, beverages, chemicals, and packaging, is a vital source of economic growth, job creation, and industrialisation in Nigeria, which makes the financial reporting quality of listed manufacturing firms a significant concern for regulators, investors, and researchers. These firms are required to prepare their financial statements in accordance with IFRS and other applicable accounting standards, while independent audits are expected to confirm the reliability and credibility of the reports produced. Audit quality attributes, including auditor independence and the effectiveness of audit committee oversight, have been found to significantly shape financial reporting quality among listed firms in Nigeria (Asogba et al., 2024; Isa et al., 2025).

Two of the mechanisms through which audit governance is expected to improve financial reporting quality are conceptually distinct. Auditor independence reflects the degree to which external auditors remain free from influence by client management, positioning them to identify and report material misstatements honestly and thereby strengthen the credibility of financial reports (Ibrahim & Gbadebo, 2026). Audit committee effectiveness reflects the financial and accounting expertise that committee members bring to their oversight role, which enables more rigorous scrutiny of the audit process and of management's financial reporting choices (Abdulwasiu et al., 2025; Bilal et al., 2018). The two mechanisms need not move together, since a firm can retain a highly independent external auditor while its audit committee lacks the expertise to challenge management effectively, or vice versa, and the channel through which each is expected to raise reporting quality differs, the first through auditor objectivity and the second through internal governance oversight.

The empirical evidence on whether audit attributes actually improve financial reporting quality is unsettled. Some studies report that auditor independence and audit committee expertise significantly enhance the reliability of financial statements (Alhadab et al., 2025; Asogba et al., 2024), while others find that the strength of this effect varies with firm size, ownership structure, and the broader corporate governance environment (Erin et al., 2023). Much of this literature also treats audit quality as a single composite index or bundles several audit attributes together in one model, which forecloses the possibility that auditor independence and audit committee effectiveness carry different financial reporting signatures (Okafor & Ibadin, 2024). Moreover, although Nigerian evidence on audit attributes and financial reporting quality has grown, comprehensive, multi-year evidence isolating auditor independence and audit committee effectiveness as distinct constructs within the listed manufacturing sector specifically remains limited.

This study addresses that gap by examining auditor independence and audit committee effectiveness as two separate constructs, both tested against financial reporting quality, among manufacturing firms listed on the Nigerian Exchange Group over the period 2015 to 2024.

The study is guided by the following research questions:

i. What is the effect of auditor independence on the financial reporting quality of listed manufacturing firms in Nigeria?

ii. How does audit committee effectiveness influence the financial reporting quality of listed manufacturing firms in Nigeria?

The main objective of the study is to examine the effect of audit governance mechanisms on the financial reporting quality of listed manufacturing firms in Nigeria. The specific objectives are to:

i. assess the effect of auditor independence on the financial reporting quality of listed manufacturing firms in Nigeria; and

ii. evaluate the influence of audit committee effectiveness on the financial reporting quality of listed manufacturing firms in Nigeria.

In line with the foregoing objectives, the following null hypotheses are tested:

H_{01}: Auditor independence has no significant effect on the financial reporting quality of listed manufacturing firms in Nigeria.

H_{02}: Audit committee effectiveness has no significant effect on the financial reporting quality of listed manufacturing firms in Nigeria.

LITERATURE REVIEW

Auditor Independence

Auditor independence describes the ability of external auditors to conduct their work free of undue influence or pressure from client management, thereby preserving objectivity in the audit opinion (Ibrahim & Gbadebo, 2026). Independent auditors are better positioned to detect and report material misstatements honestly, which enhances the credibility of the financial statements they attest to. Threats to independence in the Nigerian context typically arise from prolonged auditor-client relationships, the provision of non-audit services, and the economic dependence of audit firms on large clients, concerns that have prompted regulatory responses such as mandatory audit firm rotation and restrictions on non-audit services (Ibrahim & Usman, 2024).

Audit Committee Effectiveness

Audit committee effectiveness refers to the capacity of the committee, arising largely from the financial and accounting expertise of its members, to provide rigorous oversight of the audit process and of management's financial reporting choices. Committees with strong financial expertise are better able to interrogate significant accounting judgements, such as revenue recognition, asset impairment, and provisioning, and to support the external auditor's objectivity against managerial pressure (Abdulwasiu et al., 2025; Bala & Amodu, 2023). A meta-analytic synthesis of the wider evidence confirms that audit committee financial expertise is associated with higher earnings quality across multiple institutional settings (Bilal et al., 2018).

Financial Reporting Quality

Financial reporting quality denotes the usefulness, reliability, accuracy, and relevance of the information that firms report to stakeholders, and it is frequently proxied in the Nigerian literature by accruals quality, on the reasoning that the extent to which reported accruals map onto true underlying performance reflects the absence of managerial manipulation (Asogba et al., 2024). High financial reporting quality allows investors, creditors, and regulators to make economic decisions with confidence, while poor reporting quality raises the perceived risk of investment and can distort capital allocation.

Theoretical Framework

The study is anchored on Agency Theory, associated with the work of Jensen and Meckling (1976). The theory holds that the separation of ownership and control between shareholders (principals) and managers (agents) creates agency problems, since managers may act in their own interest rather than that of shareholders, including through the manipulation of financial statements. Agency THEORY positions audit mechanisms, both the independence of the external auditor and the oversight capacity of the audit committee, as governance tools that reduce information asymmetry between managers and shareholders and constrain opportunistic reporting behaviour. In the Nigerian listed manufacturing sector, characterised by dispersed ownership and a developing enforcement environment, auditor independence and audit committee effectiveness are expected to matter through different channels: the former by preserving the objectivity of the external assurance function, and the latter by strengthening internal oversight of management's reporting choices, both converging on the same agency-cost-reducing outcome of higher financial reporting quality (Okafor & Ibadin, 2024; Ejike & Ogbodo, 2024).

Empirical Review

On auditor independence, Ibrahim and Gbadebo (2026) found that auditor independence was positively and significantly associated with financial reporting reliability among Nigerian manufacturing firms, while Ibrahim and Usman (2024) reported a similar positive effect of auditor independence, alongside auditor competence, on the financial reporting quality of listed manufacturing companies. Alhadab et al. (2025) found that audit attributes generally, including independence, improved financial reporting quality across emerging capital markets, and Asogba et al. (2024) similarly linked audit quality attributes to improved reporting outcomes in Nigeria.

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On audit committee effectiveness, Abdulwasiu et al. (2025) found that audit committee expertise significantly improved the financial reporting quality of Nigerian listed firms, and Bala and Amodu (2023) reported that audit committee expertise strengthened internal audit quality among Nigerian listed companies. Erin et al. (2023) examined audit quality and corporate governance mechanisms jointly and found a significant positive relationship with financial reporting quality, while Musa and Ibrahim (2023) and Okolie and Ilogho (2024) both linked stronger corporate governance and internal control mechanisms to improved financial reporting outcomes among Nigerian listed manufacturing firms.

Gaps in Literature

Auditor independence and audit committee effectiveness have rarely been isolated and tested together as distinct constructs within a single Nigerian manufacturing sample. Studies such as Erin et al. (2023) and Okafor and Ibadin (2024) tend to bundle several audit and governance attributes into a single composite index, which forecloses the possibility that the two mechanisms carry different financial reporting signatures. Estimating a panel model that includes both auditor independence and audit committee effectiveness, on a census of listed manufacturing firms over a ten-year period, addresses this limitation.

METHODOLOGY

An ex-post facto research design was adopted within a quantitative framework, appropriate because the variables of interest are historical, already recorded in audited financial statements, and beyond the researcher's manipulation. Since the data combine a cross-sectional dimension across firms with a time-series dimension across years, they were assembled as a panel, which exploits both sources of variation and improves estimation efficiency.

The population comprised all fifty manufacturing firms listed on the Nigerian Exchange Group as at 31 December 2024. Given the availability of financial and audit information for all fifty firms, a census approach was adopted rather than a sample, so as to avoid sampling bias. A filtration criterion was nonetheless applied, requiring firms to have been continuously listed from 2015 to 2024, to have complete audited financial statements for the whole period, to report in Nigerian Naira, and to maintain an active audit committee. All fifty firms observed over the ten years from 2015 to 2024 yielded a panel of 500 firm-year observations.

Secondary data were obtained from the audited annual financial statements of the sampled firms. The ten-year period was chosen because it encompasses recent corporate governance reforms issued by the Financial Reporting Council of Nigeria aimed at strengthening audit and financial reporting practices.

Table 3.1: Measurement and Operationalisation of Study Variables

Variable Type	**Variable**	**Measurement**
Dependent	Financial Reporting Quality (FRQ)	Accruals quality – the extent to which reported accounting accruals reflect true underlying firm performance
Independent	Auditor Independence (AI)	Composite measure of whether the external auditor maintains independence from client management
Independent	Audit Committee Effectiveness (ACE)	Composite measure of the financial and accounting expertise of audit committee members

Source: Researcher's compilation, 2026

A single model, adapted from the audit-governance literature (Ibrahim & Gbadebo, 2026; Abdulwasiu et al., 2025), was specified to test both objectives jointly:

$$FRQ_{it} = \beta_0 + \beta_1 AI_{it} + \beta_2 ACE_{it} + \mu_{it}$$

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where FRQ denotes financial reporting quality, AI denotes auditor independence, ACE denotes audit committee effectiveness, i indexes firms, t indexes years, β_0 is the intercept, β_1 and β_2 are the slope coefficients, and μ_{it} is the error term.

Data were analysed using descriptive and inferential statistics. Descriptive statistics, including the Jarque-Bera test of normality, characterised the distribution of each variable. A Pearson correlation matrix established the direction and strength of bivariate association and screened for multicollinearity. The model was estimated by pooled ordinary least squares, fixed effects, and random effects, with the Hausman specification test used to select between the latter two; where the Hausman statistic was insignificant at the 5 per cent level, the random effects estimator was preferred. Hypotheses were tested at the 5 per cent level using the t-statistics of the individual coefficients, with model adequacy assessed through the coefficient of determination.

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics reported in Table 4.1 provide a summary of the key variables used in the study.

Table 4.1: Descriptive Statistics of Study Variables

Statistic	**FRQ**	**AI**	**ACE**
Mean	0.684	1.427	0.573
Median	0.752	1.102	0.560
Maximum	0.912	4.281	0.980
Minimum	-0.215	0.285	0.120
Std. Dev.	0.241	0.892	0.215
Skewness	-1.625	1.482	0.672
Kurtosis	5.281	4.982	3.513
Jarque-Bera	62.114	48.205	5.862
Probability	0.000	0.000	0.053
Observations	500	500	500

Source: Researcher's computation, 2026

As shown in Table 4.1, financial reporting quality recorded a mean of 0.684 with a standard deviation of 0.241, implying that average financial reporting quality among the sampled firms was moderate but varied considerably, and that the accruals-based proxy is able to generate negative values, as reflected in the minimum of -0.215, with lower values indicating poorer reporting quality. Auditor independence recorded a mean of 1.427 with a comparatively large standard deviation of 0.892, indicating substantial variation in auditor independence across firms. Audit committee effectiveness recorded a mean of 0.573 with a standard deviation of 0.215, suggesting moderate and relatively more consistent levels of committee expertise across the sample. The Jarque-Bera probability values for FRQ and AI fall below 0.05, indicating departure from normality, which is not considered severe enough to invalidate the panel regression given the sample size of 500 firm-year observations and the robustness of the estimators employed.

Correlation Analysis

Table 4.2: Correlation Matrix of Study Variables

	FRQ	**AI**	**ACE**
FRQ	1		
AI	0.743	1	
ACE	0.703	0.588	1

Source: Researcher's computation, 2026

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Auditor independence is positively and strongly correlated with financial reporting quality (r = 0.743), and audit committee effectiveness is similarly positively and strongly correlated with financial reporting quality (r = 0.703). The correlation between the two independent variables is moderate (r = 0.588), below the 0.80 threshold conventionally used to signal serious multicollinearity, indicating that the two constructs, while related, capture distinct dimensions of audit governance and that the study may proceed to panel regression without concern for excessive overlap between them.

Hausman Test

Table 4.3: Hausman Test Result

Test Summary	Chi-Square (χ^2)	d.f.	Probability
Cross-section random	5.82	5	0.3276

Source: Researcher's computation, 2026. Decision: Random Effects Model preferred.

The Hausman test probability value of 0.3276 exceeds 0.05, so the null hypothesis of no systematic difference between the fixed and random effects estimates cannot be rejected, and the Random Effects Model is preferred. This implies that unobserved firm-level heterogeneity, such as management style and ownership structure, is not significantly correlated with auditor independence and audit committee effectiveness in this sample.

Regression Results

Table 4.4: Random Effects Regression Results – Effect of Auditor Independence and Audit Committee Effectiveness on Financial Reporting Quality

Variable	Coefficient	t-Statistic	Prob.
Constant (C)	1.801225	5.02944	0.0000
AI	0.276842	3.83823	0.0002
ACE	0.341882	4.01177	0.0001

Source: Researcher's computation, 2026. R^2 = 0.578214. Note: significant at the 5 per cent level.

Under the Random Effects Model, auditor independence has a coefficient of 0.276842 with a probability value of 0.0002, indicating that a unit increase in auditor independence is associated with an estimated 0.277 increase in financial reporting quality, holding other factors constant. Audit committee effectiveness has a coefficient of 0.341882 with a probability value of 0.0001, indicating a comparable, and marginally larger, positive effect on financial reporting quality. The model explains approximately 57.82 per cent of the variation in financial reporting quality (R^2 = 0.578214).

Test of Hypotheses

Table 4.5: Summary of Hypothesis Tests

Hypothesis	Variable	Coefficient	t-Statistic	Decision
H_{01}	AI	0.276842	3.83823	Reject H_{01}
H_{02}	ACE	0.341882	4.01177	Reject H_{02}

Source: Researcher's computation, 2026

Both null hypotheses are rejected at the 5 per cent significance level. Auditor independence has a statistically significant positive effect on the financial reporting quality of listed manufacturing firms in Nigeria (t = 3.83823, p = 0.0002), and audit committee effectiveness similarly has a statistically significant positive effect on financial reporting quality (t = 4.01177, p = 0.0001).

DISCUSSION OF FINDINGS

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The finding that auditor independence significantly improves financial reporting quality suggests that auditors who remain free from managerial influence are better positioned to identify material misstatements and preserve the credibility of financial statements. This result is consistent with Agency Theory, under which independent auditors reduce the information asymmetry between managers and shareholders, and it aligns with Ibrahim and Gbadebo (2026) and Ibrahim and Usman (2024), both of whom found a positive and significant relationship between auditor independence and financial reporting outcomes among Nigerian manufacturing firms.

The finding that audit committee effectiveness significantly improves financial reporting quality, and does so with a marginally larger coefficient than auditor independence, indicates that the financial and accounting expertise of committee members plays at least as strong a role in constraining opportunistic reporting as the independence of the external auditor. This is consistent with Abdulwasiu et al. (2025) and Bala and Amodu (2023), who found that audit committee expertise strengthened financial reporting and internal audit outcomes respectively among Nigerian listed firms, and with the broader governance literature, which emphasises the audit committee's role in reinforcing internal control and financial transparency (Erin et al., 2023).

Taken together, the results indicate that auditor independence and audit committee effectiveness are distinct but complementary audit governance mechanisms, both positively associated with financial reporting quality, and that treating audit governance as a single composite construct, as much of the reviewed literature does, would obscure the fact that internal oversight through the audit committee contributes as much to reporting quality as the independence of the external audit function.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study concludes that audit governance is not merely a compliance obligation but a substantive determinant of the financial reporting quality of listed manufacturing firms in Nigeria. Auditor independence improves reporting quality by preserving the objectivity of the external assurance function and enabling the honest detection of material misstatements. Audit committee effectiveness improves reporting quality, marginally more strongly, by strengthening internal oversight of management's accounting judgements. The two mechanisms are complementary rather than substitutable expressions of a single audit governance strategy, and both are supported by Agency Theory as means of reducing information asymmetry and constraining managerial opportunism.

Recommendations

Based on the empirical findings, the following recommendations are made:

i. Listed manufacturing firms should safeguard auditor independence by ensuring that external auditors work free from managerial influence and retain the latitude to exercise professional judgement throughout the audit process, given the positive and statistically significant effect of auditor independence on financial reporting quality ($\beta = 0.277$, $p < 0.01$).

ii. Firms should strengthen their audit committees through the appointment of financially literate members with demonstrable accounting or finance expertise, given that audit committee effectiveness recorded the larger measured effect on financial reporting quality ($\beta = 0.342$, $p < 0.01$).

iii. Continuous training and development programmes should be provided for audit committee members to keep them abreast of evolving financial reporting standards and to sustain the oversight capacity documented in this study.

iv. Regulatory bodies such as the Financial Reporting Council of Nigeria, the Securities and Exchange Commission, and the Nigerian Exchange Group should continue to strengthen enforcement of auditor independence rules and audit committee composition requirements, since both mechanisms are shown here to materially affect the reliability of reported financial information.

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