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EFFECT OF AUDIT COMMITTEE ATTRIBUTES ON FINANCIAL REPORTING FRAUD IN LISTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract

Fraudulent financial reporting, which involves the strategic manipulation of financial statements to meet desired earnings targets or obscure a company's true financial performance, is a pervasive problem in the industry. This practice not only erodes the quality of financial reporting but also poses significant risks to stakeholders, including investors, creditors, and regulatory authorities. The main objective of this research is to examine the effect of audit committee characteristics on financial reporting fraud in listed manufacturing firms in Nigeria. The data were collected from the annual reports and accounts of a sample of 21 manufacturing companies for the period 2014 to 2023 and were analyzed using the Generalized Method of Moment (GMM) panel estimation. The results showed that audit committee characteristics have significant effect on financial reporting fraud in listed manufacturing firms in Nigeria. Specifically, the results indicate that audit committee size and number of meetings have a significant positive effect on financial reporting fraud. However, audit committee gender diversity and shareholding significantly reduce the incidence of financial reporting fraud. This study recommends that the regulators of Nigerian listed companies, such as the Securities and Exchange Commission should consider reducing the number of directors that serve on the audit committees of nonfinancial firms to less than six members to enhance the credibility of financial reports. In addition, regulators of the industry appointment of directors on the boards of non-financial firms should be based on merit and integrity. Future Codes of Corporate Governance in Nigeria should deemphasize the appointment to boards and standing committees based on independence but rather their track record.

Keywords: Audit Committee Attributes, Financial Reporting Fraud, Manufacturing Companies

Introduction

Concerns about financial reporting fraud became more pronounced following global corporate scandals that led to the collapse of many giant companies in industrialised nations such as Enron, WorldCom, and Tyco. These scandals sparked heated debates among regulators, practitioners, and researchers to find lasting solutions to unprecedented corporate failures. A central theme in these scandals is the lack of a robust corporate governance structure to ensure integrity in the financial reporting process and provide necessary oversight from the board (Siregar & Harahap, 2024). The Sarbanes-Oxley Act introduced new codes of best governance practices in the U.S. in 2002, aiming to improve managerial oversight and protect shareholders' investments. Similarly, in 2003, a code for best governance practices was introduced globally to align the interests of managers and shareholders.

Shareholders often rely on the board and its committees to monitor the independence of management and auditors in performing their duties. Thus, the responsibility for the quality of financial reporting falls on an effective board and its committees. Agyei-Mensah (2024) notes that most prior studies have focused on the role of the audit committee as the main agent ensuring the integrity of financial information and handling issues related to external audits. However, since the board of directors appoints and removes audit committee members, their role is equally crucial in promoting high-quality financial reporting. In today's corporate environment, good governance structures include a well-functioning audit committee, a thoughtfully composed board of directors, a balanced ownership structure, and an independent and vigilant external auditor (Abbas et al., 2021). These measures aim to align the interests of managers and shareholders, as proposed by agency theory.

The role of audit committees in combating financial reporting fraud can be viewed from three theoretical lenses: agency, stakeholder, and fraud triangle theories. Agency theory is based on the premise that the separation of ownership from control in modern corporations necessitates monitoring management to prevent self-serving interests at the expense of shareholders. Audit committees can serve as an effective monitoring mechanism if they are independent, well-composed, and consist of individuals with the requisite knowledge to understand the intricacies of financial reporting. Stakeholder theory views the corporation as accountable to a broad group of stakeholders affected by the company. Therefore, corporate governance mechanisms, such as audit committees, should represent the interests of all stakeholders to maximize value (Zalata, et al, 2020). The fraud triangle theory seeks to explain the motivations and incentives for perpetrating fraud, identifying opportunity, pressure, and rationalization as the three dimensions of fraud. Audit committees can mitigate fraud by influencing how fraud perpetrators engage with financial reporting choices and methods.

Debates about the efficacy of audit committees in ensuring the credibility of financial reports have been central to corporate governance developments globally. Consequently, several codes of best corporate governance practices have been introduced by firm regulators, recommending effective audit committees to curb financial irregularities. Since financial reporting involves accounting choices, audit committee characteristics play a significant role in monitoring and overseeing corporate reporting (Siregar & Harahap, 2024). Empirical studies assessed the effect of the presence of an audit committee on a firm's performance and the quality of financial reports (Kaituko et al., 2023; Siregar & Harahap, 2024). Earlier studies explored audit committee composition, such as size, independence, diligence (number of meetings), and financial literacy (Chen & Komal, 2022; Sultana & Zahn, 2018). Recent empirical studies have examined the relationship between financial reporting fraud and the equity ownership of audit committee members (Jang et al., 2024; Al-Zoubi, 2020) and gender diversity within the audit committee (Wang et al., 2022). However, these studies have not provided conclusive evidence on the role of audit committee characteristics in financial reporting fraud. This thesis focuses on the Nigerian manufacturing industry to investigate whether audit committee characteristics affect financial reporting fraud.

The manufacturing companies provide further motivation for assessing the effect of audit committee characteristics on financial reporting fraud. The sector has witnessed cases of accounting irregularities due to poor corporate monitoring, undermining the quality of reported earnings and eroding investors' confidence in the financial reporting process. Misrepresentation of financial statements to mask corporate performance has occurred in firms across different industries in Nigeria. For example, Cadbury Nigeria PLC overstated its accounts by between 85 and 100 million dollars by 2006, leading to a lawsuit in 2007 (Yero, 2012). Earlier, Lever Brothers (now Unilever) Nigeria Plc. was accused of irregularities in its audited accounts. Fraudulent accounting and reporting, weak internal governance structures, and complacent auditors are some of the factors responsible for these issues (Marzuki et al., 2021). Global efforts have been made to improve governance structures in companies, particularly concerning financial reporting. These efforts have led to the proliferation of corporate governance codes, both national and industry-specific.

Empirical findings on the association between audit committee variables and financial reporting fraud worldwide have yielded contradictory results. These differences could be attributed to methodological issues such as model specification, sample size, and study domain. Additionally, the differences in the sophistication of governance structures and regulatory authorities contribute to the disparities in findings. For example, Dabor and Adeyemi (2019) found that audit committee size and independence are positively related to discretionary accruals in Nigerian manufacturing firms. Chen and Komal (2022) concluded that audit committee members' accounting and financial expertise are associated with reduced levels of financial reporting fraud. Zhou and Chen (2021) found that audit committee size, independence, and financial expertise are positively related to discretionary accruals of the many audit committee variables, four have prominently featured in past empirical studies: size (Zalata et al., 2020; Agyei-Mensah, 2024), independence (Dewi & Anisykurlillah, 2021; Sari et al., 2022), meetings (Abed et al., 2022; Chen & Komal, 2022), and financial expertise (Zalata et al., 2020; Jang et al., 2022). In the Nigerian context, studies have examined audit committee characteristics on financial reporting fraud (Akhor & Oseghale, 2017; Emeka-Nwokeji, et al., 2019; Ahmad et al., 2021; Ismail & Kamarudin, 2023). While these studies have attempted to examine the effects of certain audit committee variables on accounting irregularities, they have provided little insight into how specific audit committee characteristics, such as gender diversity, financial expertise, and shareholding, relate to financial reporting fraud. This suggests the existence of a variable inclusion gap. The author of this thesis is not aware of any study in Nigeria that examined audit committee characteristics variables as contained in this research. Thus, this research provides an important contribution to the literature on the efficacy of audit committee dimensions on the integrity of the financial reporting process.

The Nigerian business environment and corporate governance structure are quite distinct from those of developed countries. The environment is characterized by weak investor protection, concentrated ownership, lack of shareholder activism, and regulatory lapses (Ismail & Kamarudin, 2023). These peculiarities suggest that findings from empirical studies on audit committee characteristics and corporate governance variables may not be generalizable to Nigerian companies. Additionally, financial reporting fraud is industry specific (Hassan & Ahmed, 2022). Differences lie in the estimation of accruals between the manufacturing and financial sectors. This means that the results of prior studies focused on the financial sector may not be relevant to the manufacturing industry. This study, therefore, aims to assess how audit committee characteristics influence financial reporting fraud in the Nigerian manufacturing industry.

The main objective of this research is to examine the effect of audit committee characteristics on financial reporting fraud in listed manufacturing firms in Nigeria. The specific objectives are to:

i. Examine the effect of Audit Committee Size on Financial Reporting Fraud in listed manufacturing firms in Nigeria.

ii. Investigate the effect of Audit Committee Independence on Financial Reporting Fraud in listed manufacturing firms in Nigeria.
iii. Access the effect of Audit Committee Meetings on Financial Reporting Fraud in listed manufacturing firms in Nigeria.
iv. Examine the effect of Audit Committee Financial Expertise on Financial Reporting Fraud in listed manufacturing firms in Nigeria.
v. Examine the effect of Audit Committee Gender Diversity on Financial Reporting Fraud in listed manufacturing firms in Nigeria.
vi. Investigate the effect of Audit Committee Shareholding on Financial Reporting Fraud in listed manufacturing firms in Nigeria.

Literature Review

Financial Reporting Fraud

The Association of Certified Fraud Examiners (ACFE, 2019) defines fraud as the deliberate falsification of an entity's material financial facts, achieved by intentionally misrepresenting or omitting information in financial statements to deceive users. ACFE (2019) classifies fraud into three categories: corruption, asset misappropriation, and financial statement fraud. This thesis focuses exclusively on financial statement fraud, which refers to the intentional deception of investors about a firm's true economic condition by violating regulatory frameworks (Wells, 2017). This practice is also known as earnings management or financial statement manipulation. Throughout this thesis, these terms will be used interchangeably to refer to the deliberate intervention by management in the financial reporting process for personal gain.

Habbash (2020) describes financial reporting fraud as purposeful intervention in external financial reporting to gain private benefits. Thus, financial reporting fraud can be simply defined as intentional interference in the financial reporting process for personal objectives, encompassing all attempts to manipulate financial reports. Healy and Wahlen (1999) describe financial reporting fraud as altering financial statements using judgment in transaction structuring to mislead stakeholders or achieve contractual benefits tied to accounting figures. This definition highlights the use of accounting choices and methods to misrepresent the firm's economic situation.

Akers, et al. (2007) view financial reporting fraud as attempts to influence reported earnings through specific accounting methods, recognizing nonrecurring items at opportune times, deferring or accelerating transactions, or other techniques to control short-term earnings. This definition emphasizes the manipulation of short-term gains and acknowledges that such manipulations do not typically extend into the long term. Foster and Shastri (2023) define financial reporting fraud as deliberate intervention in financial reporting to misstate earnings for rewards, regardless of managerial motives. Similarly, Bargathi (2024) emphasizes that financial reporting fraud is intended to mislead stakeholders using managerial knowledge of accounting rules and economic decisions for personal benefit.

This study aligns with Habbash (2020) and Schipper (1989), viewing financial reporting fraud as disclosure management involving deliberate interference in financial reporting to benefit managers or shareholders. While often associated with selfish managerial behavior, shareholders can also benefit from such actions. The permissibility of financial reporting fraud within Generally Accepted Accounting Principles (GAAP) suggests it is part of companies' efforts to present a favorable image in a competitive, globalized market.

Audit Committee

An audit committee has been defined by various scholars. An early definition by Marian (1988) characterizes an audit committee as a subgroup of the board of directors established to provide additional assurance regarding the quality and reliability of financial information utilized by the board. More broadly, an audit committee is described as a committee predominantly composed of non-executive directors, tasked with overseeing, reviewing, and monitoring the financial reporting process and audit activities.

Primarily, the audit committee serves a monitoring and oversight role over the financial reporting process. An effectively functioning audit committee enhances the credibility of financial reports in two ways. First, it ensures the quality of financial reports by mitigating financial reporting fraud through the examination of accounting measurements, choices, and methods. Second, it coordinates internal and external audits to prevent management pressure from compromising the preparation of financial statements. This analysis underscores that a company's financial reporting can be significantly compromised if the audit committee is poorly composed and lacks genuine independence. Numerous studies (Klein, 2016; Marzuki et al., 2021) have demonstrated that various dimensions of the committee impact the quality of financial reporting and financial reporting fraud. In this research, we examine the effect of six audit committee variables: audit committee size, audit committee independence, audit committee meetings, audit committee financial expertise, gender diversity of the audit committee, and committee shareholding. The subsequent sections will discuss each of these variables in detail.

Audit Committee Size

The size of the audit committee denotes the number of directors who are members of this committee. This size is indicative of the resources available for decision-making, similar to the board of directors, and can influence the quality of financial reporting. Jensen (1993) argued that the number of directors on corporate boards impacts decision-making effectiveness and reliability, based on the notion that "two heads are better than one." Consequently, a larger audit committee is more likely to identify and address issues related to financial report integrity due to a broader range of perspectives and expertise available for effective oversight. However, Chen and Zhou (2004) asserted that an audit committee‘s effectiveness depends on its authority.

Audit Committee Independence

Audit committee independence is vital for its effectiveness and refers to the proportion of non-executive directors on the committee. A higher proportion of external directors enhances the committee's independence since they are appointed based on their expertise rather than company ties, ensuring more objective decision-making. The Code of Corporate Governance for Public Listed Companies in Nigeria (2018) recommends an equal ratio of executive to non-executive directors but does not specify the proportion of independent non-executive directors. In corporate governance literature, one view is that independence fosters objectivity and credibility in financial reports, while another suggests that outside directors may lack the necessary knowledge and skills for effective oversight. Thus, the committee‘s independence alone may not guarantee its effectiveness or prevent financial reporting fraud.

Two arguments on the effectiveness of audit committee independence have been discussed in the corporate governance literature. One argument is that independence will lead to objectivity in decision-making, which outside directors will bring to the committee since they deal with the company at an arm‘s length manner. In this regard, independence will ensure credibility of corporate financial reports and curb fraudulent reporting. The second argument is that outside directors may not have the required knowledge and skills to oversee the financial reporting process. Since, independent directors are not directly responsible for the preparation of financial reports, outside directors on audit committee is only effective to the extent that they understand financial reporting requirements, compliance issues, and regulatory frameworks. Thus, independence of the audit committee alone may not lead to effectiveness of the audit committee and may not deter financial reporting fraud.

Audit Committee Meetings

The frequency of audit committee meetings, which involves formal gatherings to discuss financial oversight issues, reflects the committee's diligence. A direct relationship exists between the number of meetings and the quality of financial reports, implying that more frequent meetings reduce the likelihood of fraudulent reporting. Corporate governance codes recommend regular meetings for timely and credible financial reporting. For instance, the Code of Corporate Governance for Public Listed Companies in Nigeria (2018) advises at least four annual meetings, with at least one involving discussion with internal and external auditors without management present to facilitate open communication.

Audit Committee Financial Expertise

Financial expertise within the audit committee is crucial for credible financial reporting. The Code of Corporate Governance for Public Companies (2018) mandates disclosing the number of financially expert committee members. Appointing financially knowledgeable members enhances the committee's effectiveness in a complex business environment. Definitions of financial expertise vary, with a prevalent view being the number of directors with accounting and finance knowledge (Sultana & Zahn, 2013). Expertise is categorized by work experience, professional qualifications, and academic qualifications (Nelson & Devi, 2019). Financial expertise aids in analyzing reporting requirements, ensuring compliance, monitoring accounting practices, identifying significant issues, and correcting errors, thus reducing financial reporting fraud likelihood.

Audit Committee Gender Diversity

Audit committee gender diversity refers to the ratio of women directors to the total size of the audit committee (Ujunwa et al., 2012). The rationale for promoting gender diversity within audit committees is similar to that for overall board gender diversity. Traditionally, corporate boards have been predominantly male, leading to low female participation in board committees as well. However, the growing presence and significance of women directors on boards have sparked considerable academic debate on the topic. Some researchers argue that female board members tend to be more independent in their decision-making, as they are not part of the traditional male-dominated networks (Carter et al., 2023). Ryan and Haslam (2005) suggest that women are more likely to be appointed to leadership roles during challenging times.

Audit Committee Shareholding

The impact of audit committee members' shareholdings on reducing management's propensity for fraud has been extensively studied. Although research generally indicates a positive correlation, there are concerns about the committee's independence when members hold significant shares. However, from an agency theory perspective, audit committee members with equity stakes may be more vigilant in overseeing the financial reporting process to protect their interests. Consequently, their shareholding is expected to decrease the incidence of financial reporting fraud. Audit committee members' shareholdings are a crucial factor in aligning incentives, surpassing the importance of factors such as independence and financial expertise (Yang & Krishnan, 2018).

Therefore, it is important to investigate this area due to its significance in the financial reporting process. Examining audit committee members' shareholdings separately from the board's overall ownership is beneficial due to its distinct nature.

Empirical Literature

The findings on the relationship between audit committee size and discretionary accruals are mixed. Zhou and Chen (2021) studied how audit committee characteristics affect financial reporting fraud in U.S. commercial banks, analyzing 989 banks from 2019 to 2020. They found that larger audit committees enhance board efficiency and reduce financial reporting fraud through loan loss provisions. However, their study's main limitation was using total loan loss provision as a proxy for financial reporting fraud, without distinguishing between discretionary and non-discretionary components.

Erin, et al. (2022) investigated the impact of corporate governance on financial reporting quality in Nigerian banks from 2019 to 2021. They examined 120 listed firms on the Nigerian Stock Exchange and used ordered logistic regression to evaluate the relationship between audit committee attributes (size, expertise, meeting frequency) and sustainability reporting quality. Their results showed that larger audit committees positively affect the quality of financial information reported by Nigerian banks.

Habbash (2020) examined corporate governance and external audit effectiveness in preventing financial reporting fraud in UK firms from 2015 to 2018. Using GLS regression on 350 listed firms, he found no significant relationship between audit committee size and discretionary accruals, potentially due to the exclusion of financial firms. In contrast, Hasan et al. (2020) found that audit committee size and independence had no significant effect on financial reporting quality in Malaysian companies, except when the company was audited by a major firm.

Other studies have focused on the impact of audit committee characteristics on financial reporting timeliness. Akinleye and Aduwo (2020) studied Nigerian companies and found that audit committee size had no significant effect on the timeliness of financial reporting. Their study focused on listed food and beverage firms and was limited by a small sample size. Aoussii and Taktak (2018) investigated the relationship between audit committee effectiveness and financial reporting timeliness in Tunisia, finding that audit committee size did not significantly affect the timeliness of financial reports.

Bradbury (2022) studied 139 Singapore firms and 113 Malaysian firms to explore the relationship between board and audit committee characteristics and accounting quality. The study found no association between audit committee independence and income increasing discretionary accruals, suggesting that audit committee independence effectively curbs income-increasing financial reporting fraud. Yusof (2021) examined whether audit committees constrain financial reporting fraud in Malaysian listed firms, using a sample of 124 companies and OLS multiple regression analysis. The study revealed that audit committee independence is positively associated with absolute discretionary accruals, implying that independence might be more ceremonial than substantial. The author noted that independent audit members might not access all necessary financial information for effective monitoring.

Agency Theory

This research is grounded in the principles of agency theory, a framework initially introduced by Berle and Means (1932) and later expanded by Jensen and Meckling (1976). The theory emerged in response to the separation of ownership from control in modern corporations, where shareholders (the principals) delegate the management of the firm to executives (the agents). This division creates a reliance on the corporate structure and management to handle the company's operations, while also necessitating mechanisms to mitigate potential opportunistic behavior by managers.

Daily, et al (2003) highlight two core aspects of the theory: First, it simplifies the corporate structure into two main roles—managers and shareholders. Second, it acknowledges that managers may act out of self-interest rather than solely pursuing the shareholders' goals. The presence of information asymmetry, where managers have more knowledge about the firm's operations than shareholders, often leads managers to prioritize their own interests at the expense of the shareholders (Fama, 1980). This disparity creates what is known as an agency conflict, which results in costs associated with addressing these conflicts.

Heath and Norman (2004) identify that the agency theory literature focuses on two main issues: moral hazard and adverse selection. Moral hazard occurs when the agent's actions or their consequences are not fully observable to the principal (shareholders), leading to problems like managers shirking responsibilities, misusing resources, or taking undue risks. Adverse selection happens when agents possess private information before entering into a contract with the shareholders, leading to situations where less capable or motivated individuals present themselves as more qualified for roles that require minimal oversight. Both issues undermine the principal's goal of maximizing shareholder wealth.

To address these agency problems and safeguard shareholders' interests, the theory proposes several mechanisms. These include moral suasion, which involves persuading managers to work towards organizational goals selflessly, and incentive schemes that align managers' interests with those of shareholders. Examples of such incentives are performance-based bonuses, stock options, or offering equity shares at reduced prices. When managers hold shares in the firm, their interests start to align more closely with those of the shareholders, a concept known as the incentive alignment hypothesis. Research has shown that ownership structures can affect how firms monitor their operations (Idris, 2012). Another approach to mitigating agency costs is to link executive compensation to the company's performance, including deferring part of the compensation to promote long-term value creation and discouraging actions that might harm the firm's future performance.

In this context, the role of the audit committee is crucial. Tasked with ensuring the integrity of financial reports, the audit committee can play a significant role in reducing agency problems, particularly those related to financial reporting. If the incentive alignment hypothesis holds, then the effectiveness of audit committee members should help achieve the firm's value-maximising objectives and reduce the incidence of financial reporting fraud.

As previously discussed, agency theory offers various mechanisms to mitigate conflicts between shareholders and managers in a corporate environment. One notable mechanism is managerial shareholding, which aligns the interests of managers with those of shareholders, helping to bridge the gap between their goals. Financial reporting is a major area of agency conflict because shareholders, unable to directly observe business operations, rely on financial reports for investment decisions. Given their positions and the information asymmetry inherent in managerial roles, managers might manipulate financial reports to serve their own interests. Consequently, shareholders believe that managers are more likely to align with their value-maximizing objectives when they have a significant equity stake in the firm. Although empirical evidence on the link between audit committee characteristics and financial statement fraud is mixed, this study builds on Jensen and Meckling's (1976) incentive alignment theory to propose that effective audit committees can play a key role in reducing financial reporting fraud.

Methodology

This research utilizes an ex-post facto research design to examine how audit committee characteristics influence financial statement fraud in publicly traded manufacturing firms. The total number of manufacturing firms listed on the Nigerian Stock Exchange on December 2023 is 74 as of December 31, 2023. Out of these ten companies twelve (12) companies were dropped because they were listed after 2014. Another twelve (12) firms were not into core manufacturing, eleven (1) were suspended during the period, seven (7) have either merged, have been acquired or changed name. These criteria leave thirty-two (32) firms out of which eleven (11) did have full report on audit committee directors‘ variables of interest. The final sample is therefore twenty-one (21) firms which also represent the adjusted population. Thus, the study employs census sampling technique. Sectoral distribution of the sample is Agriculture 2; Conglomerates 2; Consumer goods 11; Healthcare 2; Industrial goods 2; Natural resources 2. The study used a balanced panel data; 21 companies for 2014 to 2023.

To estimate the model in this thesis, the dynamic panel generalized method of moments (GMM) estimators were employed, as initially introduced by Holtz-Eakin and Rosen (1990) and Arellano and Bond (1991), and later refined by Arellano and Bover (1995) and Blundell and Bond (1998). This choice of method was driven by the need to address simultaneity bias and firm-specific effects that might otherwise skew the results.

The model for testing the research hypotheses is presented as follows.

$$FRF_{it} = a_0 + a_1ACS_{it} + a_2ACI_{it} + a_3ACM_{it} + a_4AFE_{it} + a_5AGD_{it} + a_6ASH_{it} + a_7FSZ_{it} + a_8LEV_{it} + e_{it} \quad \text{III}$$

Table 3.1: Variables Definition and Measurements

Variable Acronym	Definition	Measurement	Source	Nature
FRF	Financial Reporting Fraud	Discretionary Accrual from Kothari et al. (2005) model	Hassan et al. (2020)	Dependent
ACS	Audit Committee Size	Number of audit committee members	Shehu & Ahmed (2022).	Independent
ACI	Audit Committee Independent	Ratio of independent directors on the audit committee to audit committee size	Ghafran (2013)	Independent
ACM	Audit Committee Meetings	Number of audit committee meetings in a financial year	Chen & Komal, 2022	Independent
AFE	Audit Committee Financial Expertise	Ratio of audit committee expertise with knowledge in accounting and finance	Hassan et al. (2020)	Independent
AGD	Audit Committee Gender diversity	Ratio of female directors on the audit committee to audit committee size	Hamdan (2019)	Independent
ASH	Audit Committee Shareholding	Ratio of shares held by the audit committee member to total issued shares	Al-Zoubi (2020)	Independent
FSZ	Firm Size	Natural logarithm of total assets	Shehu (2011)	Control
Lev	Leverage	Debt divided by equity	Habbash (2020)	Control

Source: Author, 2024

Result and Discussion

Table 1: Summary Statistics

Var.	FRF	ACS	ACI	ACM	AFE	AGD	ASH	FSIZ	LEV
Mean	-1.232	5.362	0.0489	-0.218	0.149	0.118	0.741	7.257	1.340
Std.Dev.	0.542	0.929	0.083	0.040	0.117	0.146	1.456	0.787	0.820
Min.	-3.519	4	0.250	-0.312	0.000	0.000	0.000	6.089	0.104
Max.	-0.141	6	0.750	-0.109	0.612	0.500	0.561	9.241	3.813
Skew.	-1.085	-0.779	0.417	0.270	1.270	1.039	2.176	0.504	0.553
Kurtosis	4.799	1.618	6.354	6.770	4.426	3.232	6.580	2.147	2.242

Source: Authors‘ Computation Using Stata, 2024

Table 1 shows that Financial reporting fraud has a mean of -1.232 and a standard deviation of 0.540. This shows that there is less variation regarding the extent of financial reporting fraud among the sample manufacturing firms, as the values are largely clustered around the mean. However, the minimum of -3.519 and a maximum of -0.141 indicate that some observations are far from the mean on both sides. The statistics partly validate the assumption that discretionary accruals represent behaviour concerning discretionary accruals.
Audit committee size has a mean of 5.363 with a standard deviation of 0.929 and a minimum of 4 and a maximum of 6. This indicates that some companies have yet to comply with Code of Corporate Governance for Public Listed Companies (2018), which recommends companies to have 6 members of the audit committee. For audit committee independence, the results reveal a mean of 0.489, a standard deviation of 0.083, a minimum of 0.25 and a maximum of 75. The results show that the manufacturing companies have 50% on nonexecutive directors on their audit committee, and the minimum and maximum independence are 25% and 75% respectively.

With respect to audit committee meeting, the statistics shows a mean shareholding of -0.218 with a standard deviation of 0.040. The minimum and maximum are -0.312 and 0.109. We used the natural logarithm of meeting to reduce the effect of non-normality of data as observed in the large kurtosis values. Without the using the natural logarithm the average, the result shows that the committees met five time during the period of study. In addition, the audit committees have an average of 15% of their members as experts in accounting and finance. This figure is very and may be because of the appointment of nonexecutive directors, who may not necessarily be based on the possession of the requisite knowledge in accounting and finance. Interestingly, a particular company has 61 percent of its audit committee members having financial expertise.

Table 1 further shows that female directors represent 12 percent of the board size. This means that female presence the board of these companies is low. Some companies have zero female directors, while the company with highest female presence has 50 percent of women on their boards. Regarding shareholding, the table reveals that audit committee members held 0.7 percent of issued share capital of Nigerian manufacturing companies. The shareholding of the committee ranges between 0% and 6.5 percent of issued share capital. The results indicate that audit committee shareholding is low. This may impact both the independence of the committee and agency conflict between directors and shareholders.

For the control variables, the mean of firm size (measured by the natural log of total assets) is 7.257 and the standard deviation is 0.787. The minimum and maximum are 6.089 and 9.241, respectively. These low standard deviation means that less variation in the size of the manufacturing firms across the period of study. On the other hand, Leverage (LEV), has an average value of 1.340 of total assets and a standard deviation of 0.820. This shows that there is a significant divergence in the debt component of the firms‘ capital structure, which is further substantiated by the minimum of 0.104 and a maximum of 3.813.

The skewness and kurtosis values indicate the data for most of the variables are not skewed and are mesokurtic. These indicate that the data for all variables are normally distributed. Generally, non-normality of data is one of the assumptions of the ordinary least square that can be relaxed and still achieve efficient estimates (Gujarati, 2004). This is because the assumption of normality referred to under ordinary least square relates to the normality of residual, the result of which is presented under the discussion on robustness test. Also, the GMM model solves the potential problems that arise because of non-normality of data such as heteroscedasticity and autocorrelation.

Table 2: Correlation Analysis

Variable	FRF	ACS	ACI	ACM	AGD	AFE	ASH	FSIZ	LEV
FRF	1.000								
ACS	0.076	1.000							
ACI	-0.031	0.005	1.000						
ACM	0.067	0.161*	0.187*	1.000					
AGD	-0.176*	0.177*	0.021	0.102	1.000				
AFE	0.030	-0.095	-0.001	-0.015	-0.066	1.000			
ASH	-0.010	0.109*	0.105	-0.062	-0.067	-0.068	1.000		
FSIZ	-0.041	0.512*	0.142*	0.069	0.136*	-0.014	0.244*	1.000	
LEV	0.086	0.080	-0.117*	-0.063	-0.089	0.151	0.041	0.015	1.000

Source: Authors' Computation Using Stata, 2024

Table 2 above shows that audit committee meetings and financial expertise have positive relationship with financial reporting fraud. The relationship between audit committee independence, gender diversity and shareholding have negative relationships with financial reporting fraud. Concerning control variables, firm size positively relates to financial reporting fraud, whereas leverage has a positive correlation with financial reporting fraud.

Overall, the correlation coefficient among pairs of the independent variables do not exceed the threshold of 0.80 that suggests the existence of harmful collinearity among variables as opined by Gujarati (2004). High correlation among pairs of independent variables lead to inflated standard errors and hence bias estimates as the effect of individual regressors on the dependent variable cannot be efficiently determined through multivariate regression analysis. The highest correlation coefficient is between the firm size and audit committee size (0.512). This is expected because larger companies may require more directors on the audit committee to ensure reliability of financial reports. In the subsequent section, the result of multicollinearity test is using Variance Inflation Factor (VIF), which is an advanced test for exact correlations among regressors, is presented.

Table 3: Multicollinearity Test

Variable	VIF	Tolerance Value
ACS	1.45	0.692
ACI	1.10	0.912
ACM	1.08	0.923
AGD	1.06	0.943
AFE	1.05	0.956
ASH	1.10	0.910
FSIZ	1.47	0.681
LEV	1.06	0.941
Mean	1.17	

Source: Authors' Computation Using Stata, 2024

Gujarati (2004) notes that if the variables have VIF values and/or the TVs above 10 and less than 0.10 respectively, there is a strong indication of the existence of an excessive correlation. Since the result shows that all the VIF values are less than 10, ranging from 1.06 to 1.45, it is concluded there is the absence of harmful collinearity among the regressors.

To test the existence of heteroskedasticity, the study uses Breusch-Pagan or CookWeisberg test. The null hypothesis assumes that the variance of the residuals is constant. If the p-value is significant at 5%, then there is substantial evidence to reject the null hypothesis indicating the presence of heteroskedasticity. The result of the test reveals chisquare of 149.73 and the chi-square probability that is significant at the 1% level. This indicates that the homoscedasticity assumption is not met. Consequently, the study uses GMM, which corrects for both heteroscedasticity and endogeneity problems that are common in panel data analysis.

Table 4: GMM Panel Estimation

Variable	Coefficient	Std. Error	z	Prob.
Constant	0.968	0.588	1.65	0.100
ACS	0.066	0.032	2.07	0.038
ACI	-0.853	0.596	-1.43	0.152
ACM	2.084	0.736	2.83	0.005
AGD	-0.810	0.239	-3.39	0.001
AFE	0.110	0.256	0.43	0.666
ASH	-0.061	0.017	-3.68	0.000
FSIZ	-0.206	0.054	-3.85	0.000
LEV	0.055	0.033	1.65	0.099

Source: Authors' Computation Using Stata, 2024

Table 4 presents the regression result that tests the direct effect of audit committee characteristics on financial reporting fraud of listed manufacturing firms in Nigeria. Overall, the results returned a wald chi2 of 154.01, which is significant at the 1% level. These suggest that the model is well fitted and the GMM analysis as adequate in explaining the modelled relationship.

Turning attention to the individual variables, the results in Table 4 above shows that audit committee size has a significant positive effect on financial reporting fraud (coefficient = 0.066, z = 2.07, prob. = 0.038). This means that companies with more directors on their audit committees, all things being equal, produce less credible financial reports. Similarly, audit committee meetings have a significant positive effect on financial reporting fraud (Coefficient = 2.084, z = 2.83, prob. = 0.005), suggesting that meeting frequency impedes the production of higher-quality financial reports. Audit committee financial expertise has an insignificant positive effect on financial reporting fraud (coefficient = 0.110, z = 0.43, prob. = 0.666). This shows that audit committee financial expertise is not a significant determinant of the quality of financial reports.

Audit committee independence has a negative but insignificant effect on financial reporting fraud (coefficient = -0.853, z = -1.43, prob. = 0.152), indicating that higher ratio of non-executive directors does not add to the credibility of financial reports. Regarding the audit committee gender diversity, the table shows that more women on the committee significantly affects financial reporting fraud (coefficient = -0.810, z = -3.39, prob. = 0.001). The significant negative effect means that higher proportion of female directors, all things being equal, reduces the tendency for fraudulent financial reporting. Similarly, audit committee shareholding has a significant negative effect on financial reporting fraud (coefficient = -0.061, z = -3.68, prob. = 0.000). The results suggest that more equity holding by audit committee members, all things being equal, significantly reduces the tendency for the manipulation of financial reports.

Concerning the control variables, findings reveal that firm size has a significant negative effect on financial reporting fraud (coefficient = -0.206, z = -3.85, prob. = 0.000). This result is in line with the political cost hypothesis, which states that larger firms avoid the manipulation of financial reports because they are under constant scrutiny by investors, regulators, and the government (Hassan et al., 2020). It is therefore expected that larger firms will avoid managing their income because of the high political risk associated with it.

For the second control variable, the results reveal that leverage has an insignificant positive effect on financial reporting fraud (coefficient = 0.055, z = 1.65, prob. = 0.099). The finding contradicts the debt hypothesis, which suggests that highly levered firms avoid manipulating financial statements because they are being constantly monitored by their creditors (Shehu & Abubakar, 2012). However, the desire to employ more debt in their capital structure may lead firms to doctor their financial reports in a way that is appealing to creditors. This pressure to perform better and the need to portray themselves as being capable of settling their long-term obligations as they fall due may serve as additional motivation to engage in fraudulent financial reporting.

Conclusion and Recommendations

This thesis investigated the effect of audit committee characteristics on financial reporting fraud in listed manufacturing firms in Nigeria. Based on the results of GMM regression, the study concludes as follows:

Audit committee size does not significantly impact the tendency for financial reporting fraud, suggesting that that companies having more directors on their audit committee may not necessarily produce higher quality financial statement or impact fraudulent financial reports.
Audit committee independence does not significantly contribute to improving the integrity of financial reports. The result raises question on the efficacy of nonexecutive directors in providing monitoring of management overseeing the financial reporting process. The appointment of non-executive directors on the board and audit committees may be marred by political considerations rather than their ability to provide better stewardship of companies.
Audit committee meetings are associated with financial reporting fraud, which lowers credibility of financial statements. Meeting frequency does not suggest more deliberations on ensuring the integrity of financial statements. Rather audit committee directors may stagger meetings to discuss certain corporate issues not related to financial reporting.

More female on audit committees leads to the production of higher-quality financial reports. Women directors are associated with improving board room deliberations, risk-averseness, and diligence in the discharge of the duties. Higher ratio of female directors on the boards and audit committees improves the boards monitoring and oversight function.
Audit committee financial expertise does not curtail the prevalence of financial reporting fraud. The result suggests that financial expertise of the audit committee members does not improve the vigilance of the board with regards to compliance with financial reporting standards and regulatory requirements. Financial experts on the audit committee may be complacent to allow managers use their discretion in the use of accruals to manipulate financial reports.
Audit committee shareholding is an effective mechanism in curtailing financial reporting fraud in listed manufacturing firms in Nigeria. This means that equity holding by Directors that serve on the audit committee improves the committees' monitoring effectiveness which leads to higher-quality reported earnings. This is because more equity effectively turns audit committee directors into shareholders leading the alignment of interest between the managers and shareholders. Thus, audit committee shareholding can be used to reduce the agency conflict that is prevalent in manufacturing companies.
In line with the study findings, this thesis makes the following recommendations:

i. The regulators of Nigerian listed companies, such as the Securities and Exchange Commission should consider reducing the number of directors that serve on the audit committees of non-financial firms to less than six members to enhance the credibility of financial reports.

ii. Appointment of directors on the boards of non-financial firms should be based on merit and integrity. Future Codes of Corporate Governance in Nigeria should de-emphasize the appointment to boards and standing committees based on independence but rather their track record.

iii. Securities and Exchange Commission should peg audit committee meeting not to exceed four times during a financial year. There should be disclosure requirement on meeting agendas, number of directors in attendance, and their contribution to the committees' deliberation.

iv. Securities and Exchange Commission should consider appointing directors on the audit committee to be based on the knowledge of accounting and finance. Those with the required knowledge should head the audit committees and be held responsible for overseeing the preparation financial reports.

v. Investors and regulators should advocate for the inclusion of more women in the board of directors and audit committee as they have proven to be effective in monitoring managers and preventing financial reporting fraud. Future codes of corporate governance for public listed companies should consider recommending that audit committees should be composed on at least 30 percent of female directors.

vi. Investors and managers should consider appointing directors on the audit committee based on their shareholding in the company. This can be done through moral suasion on by share-based compensation to the directors that serve on the committee.

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