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THE MODERATING EFFECT OF AUDIT COMMITTEE FINANCIAL EXPERTISE ON FIRM SIZE AND AUDIT QUALITY OF INDUSTRIAL GOODS FIRMS IN NIGERIA.

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Abstract

This study examined the moderating effect of audit committee financial expertise on firm size and audit quality among industrial goods firms listed on the Nigerian Exchange Group (NGX) between 2015 to 2024. The specific objectives are; to examine the effect of total assets, total revenue, and market capitalization on audit quality of industrial goods firms in Nigeria. The study employed an *ex post facto* research design, using panel data from 11 purposively selected firms based on data availability and audit committee composition. Audit quality was proxied by auditor independence (audit fee ratio), while firm size was measured through three proxies: total assets, total revenue, and market capitalisation. The moderating variable was the proportion of audit committee members with financial qualifications.The moderating regression model showed that audit committee financial expertise significantly affected the effectof total assets ($\beta = 0.451$, $p = 0.032$), total revenue ($\beta = 0.834$, $p < 0.001$), market capitalisation ($\beta = 2.127$, $p < 0.001$). The study concluded that firm size significantly affected audit quality even when moderated with audit committee financial expertise. The study recommended that since total assets had a positive and statistically significant effect on audit quality large industrial goods firms should continue to engage the services of independent external auditors so that their audit quality cannot be compromised.

Keywords: Audit Reporting Quality, Audit Committee Financial Expertise, Firm Size,

1.1 Introduction

The integrity of financial information hinges upon the quality of audits conducted by independent auditors (Darmawan, 2023), Audit quality relates to the level of audits adherence to professional standards and effective uncovering of material misstatements in financial statements. This is evident in different ways including auditor independence, competence, objectivity, and ethical conduct which enhance the reliability and credibility of financial reporting. Thus, a high audit quality is crucial as it helps to reduce information asymmetry and build investor confidence, leading to significant value of the organizations

Several corporate scandals experienced by different companies in the years past are in different degrees attributable to deficiencies in audit quality.Amah &Nwokwu (2021) stressed that weak auditing practices have often been implicated in financial scandals and corporate failures, undermining investor confidence and threatening the stability of financial markets. Consequences topoor audit quality are enormous, including damage to the company's reputation, regulatory penalties and legal liabilities all because of incorrect representation of financial statements. The organisation's strategic direction and operational efficiency can negatively be affected on account of poor audit quality. For example, ignoring overestimated revenue can result in overspending, while underestimating liabilities can lead to insufficient reserves. These therefore require that accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices.

In Nigeria section 359 of company and allied matters Act (CAMA) 1990 established audit committee as a body that takes care of company financial reporting with respect to internal controls put in place to ensure accuracy.The Nigerian Corporate Governance Code emphasizes the need for financially skilled members on audit committees to strengthen governance frameworks and improve audit quality (Financial Reporting Council of Nigeria, 2018).The committee is tasked with providing oversight for financial reporting processes, risk management, and compliance with regulatory requirements (Bédard et al., 2018). One critical aspect of an effective audit committee is the financial expertise of its members. Financially literate audit committee members possess the skills and knowledge necessary to understand intricate financial transactions, assess the quality of financial reporting, and detect potential irregularities that might undermine the credibility of audit outcomes (García-Sánchez et al., 2017). According to Pucheta-Martínez and García-Meca (2019), the presence of financial expertise within audit committees is associated with fewer financial restatements, improved compliance with accounting standards, and higher overall audit quality. This is particularly important in emerging markets such as Nigeria, where the regulatory environment is evolving, and governance challenges often impact corporate performance and market stability.

Research has shown that firm size influences the quality of auditing, but this relationship is not always straightforward. DeFond and Zhang, (2018), argued that larger firms have greater resources and are often better positioned to engage reputable audit firms and invest in internal control systems while smaller firms may rely more heavily on the effectiveness of their governance mechanisms, including the audit committee. Whatever be the case, additional factor, such as the financial expertise of the audit committee, may play a moderating role in shaping this relationship for effective oversight mechanisms. Studies by Pucheta-Martínez and García-Meca (2019) highlight the critical role of financial expertise in ensuring that audit committees can effectively monitor financial reporting processes, mitigate risks, and foster corporate transparency.

The moderating effect of audit committee financial expertise provides a nuanced understanding of how governance practices can be tailored to different firm sizes to enhance audit quality. For instance, García-Sánchez et al. (2017) found that audit committees with members possessing financial expertise were better able to address the unique challenges of both large and small firms, leading to improved audit outcomes. The interplay between firm size, audit committee financial expertise, and auditing quality is particularly relevant in the Nigerian context, where industrial goods firms contribute significantly to the national economy. These firms are instrumental in driving economic growth, creating jobs, and supporting infrastructural development. However, their contribution is often hindered by governance challenges and inconsistencies in financial reporting practices (Amah &Nwokwu, 2021). Strengthening the financial expertise of audit committees can help address these issues by providing the necessary oversight to ensure compliance with regulatory standards and enhance audit quality.

More specifically, the presence of financial experts on audit committeesas moderatorsincludes individuals with accounting qualifications, audit experience, or financial management expertise, each of whom brings distinct value to the audit oversight process. Accounting experts possess technical skills to evaluate financial reports and ensure they align with applicable standards. Audit experts have experience in auditing practices and can independently assess the quality and scope of audit procedures, increasing assurance on audit independence and objectivity. Finance experts, on the other hand, offer strategic financial insight, enabling the committee to understand complex financial instruments, risk exposures, and valuation issues. In industrial goods firms, which often manage large-scale assets and capital-intensive operations, such multidimensional expertise is crucial for safeguarding audit integrity and enhancing governance outcomes. Therefore, this study seeks to assess how the financial expertise of audit committee members moderates the relationship between firm size and audit quality, offering new insight into how professional competencies in audit committees can strengthen institutional transparency and accountability in Nigeria's industrial sector.

Audit quality plays a critical role in ensuring the reliability, credibility, and transparency of financial reporting. In other words, deficiencies in the quality can undermine the

reliability of financial reporting, eroding stakeholders' trust and precipitating adverse market reactions. Poor auditingoffers a wrong evaluation of the operations of the business, which can result in the failure to provide early warning signals of potential problems, such as deteriorating financial performance or internal control weaknesses, leading to a company facing financial difficulties without sufficient time to take corrective actioncontributing significantly to the collapse of companies, Several high-profile cases of corporate collapses, such as Enron and WorldCom, have been linked to audit failures that allowed fraudulent financial reporting to continue for extended periods. The case is not different in Nigeria, as many Nigerian companies, have closed down or faced significant challenges occasioned by poor auditing. These failures highlight the importance of high-quality audits in safeguarding the integrity of financial reporting and preventing corporate failures.

There is limited empirical consensus on how firm size, in its multidimensional form, influences auditing quality, particularly in this sector. Although firm size has often been considered a determinant of audit quality, most existing studies have adopted simplistic proxies such as total assets or revenue failing to explore more comprehensive and structural indicators such as market capitalisation, number of employees, and industry position or geographical location. These factors, which capture both economic scale and market relevance, may differently influence auditing dynamics and thus require deeper investigation.

In addition, while some studies, including Halidu et al. (2024) and Bello et al. (2024), have explored the moderating effect of firm size on corporate governance or reporting outcomes, they either focused on sectors like oil and gas and consumer goods or generalized findings without sector-specific considerations. This represents a contextual gap, as industrial goods firms may experience different audit pressures and governance expectations due to the capital-intensive nature of their operations.

Moreover, the literature on audit quality continues to rely heavily on quantitative proxies such as audit fees, tenure, and auditor size, which may not adequately capture the qualitative aspect of audit performance, particularly auditor independence—a core principle in ensuring audit objectivity and reliability. Studies such as Ajape and Adelowotan (2024) and Tonade et al. (2024) have already questioned the sufficiency of traditional proxies, highlighting the need for alternative and more substantive measures of audit quality that reflect the true independence and effectiveness of auditors.

An equally critical but underexplored aspect is the moderating role of audit committee financial expertise in the relationship between firm size and audit quality. Although financial expertise within audit committees has been shown to enhance financial reporting quality and reduce earnings management in some sectors (e.g., Ibrahim & Thomas, 2024; Yahaya &Okoroigwe, 2022), few studies have examined whether this expertise can significantly shape the influence of various dimensions of firm size on auditing quality especially within the industrial goods sector. The failure to investigate

this interaction leaves a substantial theoretical and empirical gap in understanding how internal governance structures contribute to audit effectiveness amid differing firm capacities.

Furthermore, there are methodological gaps in prior studies, including inconsistent sampling techniques, lack of sectoral focus, limited control for firm age or institutional maturity, and weak model specifications that overlook interaction effects. These limitations question the reliability and generalisability of existing findings across the Nigerian corporate landscape.

Against this backdrop, the current study seeks to fill these important gaps by conducting a comprehensive, sector-specific investigation into the relationship between firm size and auditing quality, while assessing the moderating effect of audit committee financial expertise. By using a more nuanced operationalisation of firm size, incorporating a qualitative measure of audit quality (auditor independence), and introducing firm age as a control variable, this study will contribute to a richer and more contextual understanding of audit quality drivers in the industrial goods sector.

The study specific objectives are to:

Examine the moderating effect of total assets on audit quality of industrial goods firms in Nigeria.

Investigate the moderating effect of total revenue on audit quality of industrial goods firms in Nigeria.

Analyse the moderating effect of market capitalisation on audit quality of industrial goods firms in Nigeria.

2.0 Review of Related Literature

2.1 Conceptual Review

2.1.1 Firm Size

Firm size represents the magnitude of a company's operations, which directly influences its market presence, organizational structure, and operational complexity. This concept is crucial in economics, finance, and management, as it often determines a firm's strategic approach, resource allocation, and interaction with external stakeholders, including auditors. Firm size is not a singular or fixed attribute; instead, it is evaluated through multiple dimensions that provide a comprehensive view of a company's scale and reach.

Firm size refers to the scale or magnitude of a company's operations and represents one of the most important firm-specific characteristics used in corporate finance and accounting research. It reflects the capacity of a firm in terms of resources, assets, market share, sales volume, and employee strength. Firm size is often associated with the ability of a company to achieve economies of scale, attract external financing, withstand economic shocks, and maintain competitive advantages in the market (Brigham & Houston, 2019). Larger firms generally possess more resources and stronger organizational structures, which enable them to undertake investment opportunities and improve operational efficiency.

According to Ross, Westerfield and Jordan (2022), firm size represents the overall economic strength and operational capacity of a business organization. It influences strategic decisions, risk-bearing ability, access to capital markets, and profitability. Larger firms tend to enjoy lower costs of borrowing due to their established reputation and reduced information asymmetry, while smaller firms may face greater financial constraints and higher costs of capital.

Firm size also serves as an indicator of a firm's market power and managerial capability. Dang, Li and Yang (2018) argue that larger firms are better positioned to diversify their operations, exploit economies of scale, and absorb business risks, thereby enhancing their performance and sustainability. Similarly, Hunjra et al. (2020) note that firm size affects corporate investment decisions, financing choices, and profitability because large firms possess greater access to financial resources and technological innovations.In empirical studies, firm size is commonly measured using total assets, total sales, market capitalization, or the number of employees. However, the natural logarithm of total assets (LnTA) is the most widely used proxy because it reduces data variability and provides a more normalized distribution for statistical analysis (Gujarati & Porter, 2009). The choice of total assets as a measure is based on the premise that assets represent the economic

resources controlled by the firm and indicate its ability to generate future benefits.Therefore, firm size can be viewed as the overall scale of a firm's operations and economic capacity, which influences its financial performance, investment opportunities, risk exposure, and long-term sustainability. Consequently, firm size is frequently employed as a control variable in corporate finance and accounting studies to account for differences arising from organizational scale and resource endowment.

2.1.1.1 Total Asset

Total assets are a fundamental measure of firm size and serve as an indicator of financial stability and resource control. Firms with larger asset bases often face increased scrutiny from stakeholders and regulatory authorities, which necessitates a higher standard of financial transparency and credibility. According to Halidu et al. (2024), firm size—measured by total assets—has a significant moderating effect on corporate governance characteristics and financial reporting quality, thereby reinforcing the need for independent and effective audit practices. Larger asset bases imply more complex operational environments and financial structures, which demand auditor objectivity and autonomy to detect misstatements or material irregularities. Hence, auditors must remain independent to maintain their credibility in evaluating the financial integrity of large asset-holding firms.

Furthermore, total assets influence the risk exposure of auditing firms. Auditors of high-asset firms are often exposed to significant legal and reputational risks, which may encourage stricter adherence to independence standards. Tonade et al. (2024) noted that prolonged auditor-client relationships in large firms can erode independence, especially if not mitigated through policies like mandatory auditor rotation. This implies that while larger asset bases may demand stronger auditing oversight, they may also pose a threat to auditor independence if not properly managed. Therefore, regulating bodies are encouraged to ensure that large industrial firms rotate auditors periodically and implement mechanisms that reinforce auditor independence, particularly where asset valuation plays a central role in financial reporting.

2.1.1.2 Total Revenue

Total revenue reflects a firm’s financial performance and operational scale, which can influence auditor independence through increased engagement complexity and higher audit fees. In larger revenue-generating firms, the volume of transactions and risk of misstatement are significantly higher, necessitating greater auditor vigilance. According to Ajape and Adelowotan (2024), although audit quality indicators such as fees and tenure did not significantly affect real earnings management in non-financial firms, the implications suggest that large-revenue firms still require a higher threshold of auditor objectivity to counteract potential management manipulation. This means auditors must

maintain independence to ensure that revenue figures are accurately reported and free from bias.

In addition, firms with significant revenue may exert economic pressure on auditors due to the financial rewards associated with maintaining such clients. This economic bonding can threaten auditor independence if audit firms become reliant on these high-revenue clients. Bello and Ugoh (2021) observed that while audit fees and auditor specialisation had a positive and significant effect on real earnings management when moderated by audit committee financial expertise, they could also compromise independence if not checked by robust oversight. Thus, while high revenue necessitates comprehensive audit procedures, it also increases the risk of auditor compromise, especially in the absence of strong audit committees with financial expertise to counterbalance the influence of management.

2.1.1.3 Market Capitalisation

Market capitalisation, which represents the market's valuation of a company, is a critical firm size indicator that impacts auditor independence. Companies with high market capitalisation often attract heightened attention from investors, regulators, and analysts, making audit outcomes a critical factor in maintaining public trust. Larger market cap firms are also likely to employ reputable audit firms with a track record of independence and professionalism to enhance investor confidence. Bello et al. (2024) reported that in larger firms, certain governance characteristics, including board expertise, could either positively or negatively influence financial reporting quality, implying that visibility through market capitalisation may enhance or threaten audit independence depending on how governance is structured.

Moreover, firms with large market capitalisation are more vulnerable to reputational damage, making independent auditing not just a compliance issue but a strategic imperative. Halidu et al. (2024) confirmed that firm size moderated the effectiveness of governance practices on financial reporting quality, suggesting that in high-market-cap firms, the presence of independent audit committees is essential in safeguarding audit neutrality. However, the influence of capital markets may pressure auditors to report favourably, particularly in firms where share price performance is tied to executive compensation. Thus, strong audit committee oversight and strict enforcement of independence rules are crucial to maintaining the credibility of financial reports in highly capitalised firms.

2.1.2 Audit Quality

Audit quality is a foundational element of financial reporting and corporate governance, representing the extent to which an audit provides a high level of assurance regarding the accuracy, reliability, and compliance of an organization's financial statements. A high-quality audit is critical to the effective functioning of capital markets, as it ensures that

financial statements reflect the true financial position of a firm, thereby fostering trust among stakeholders, including investors, creditors, regulators, and the general public (DeFond& Zhang, 2014).

At its core, auditing quality embodies two principal attributes: the abilityof the auditor to detect material misstatements in the financial statements and the willingness to report these misstatements when identified (DeAngelo, 1981). This dual focus highlights the technical proficiency of auditors in examining financial records and their independence in upholding ethical standards, even when faced with client pressure or conflicts of interest.

2.1.3 Auditor Independence

Auditor independence is a fundamental principle and an essential determinant of auditing quality. It refers to the auditor's ability to perform their duties objectively and impartially, free from any undue influence or conflict of interest that could compromise their professional judgment. The concept of independence is critical because it underpins the credibility of the audit process and ensures that financial reports provide an unbiased and reliable representation of a firm's financial position (DeFond& Zhang, 2014). The two key aspects of auditor independence are independence in fact and independence in appearance.

Independence in fact pertains to the auditor's actual state of mind and professional skepticism when conducting an audit. This type of independence ensures that the auditor's decisions and opinions are based solely on objective evidence and not influenced by personal relationships, economic ties, or other biases. It is the foundation of ethical and professional behavior in auditing. Independence in appearance, on the other hand, relates to how an auditor is perceived by external stakeholders, such as investors, regulators, and the general public. Even if an auditor maintains actual independence, any circumstances that create the impression of bias or conflict of interest can undermine stakeholder confidence. For instance, prolonged audit tenure or significant non-audit fees from the same client may raise concerns about compromised independence, regardless of the auditor's intentions.

Several factors can pose threats to auditor independence, reducing the effectiveness of the audit and diminishing its perceived quality. Familiarity threats arise from long-term relationships with clients, where auditors may become excessively familiar with the client, leading to less critical or skeptical assessments of the financial statements. Self-interest threats occur when auditors have a financial stake in the audited entity, such as shareholding, outstanding fees, or reliance on the client for significant revenue. Advocacy threats arise when auditors take on roles that advocate for the client, such as assisting in disputes or promoting their interests, which compromises their ability to remain impartial.

Intimidation threats occur when auditors face pressure from clients to produce favorable audit outcomes, risking the independence of their judgment.

2.1.4 Audit Committee Financial Expertise

Audit committee financial expertise refers to the accounting, auditing, finance, and business knowledge possessed by members of the audit committee that enables them to effectively oversee the financial reporting process and monitor management activities. It encompasses professional qualifications, practical experience, and technical competence in accounting and financial management, which enhance the committee's ability to understand complex financial transactions and ensure the credibility of corporate reports (DeZoort et al., 2002). Financially knowledgeable audit committee members are better equipped to detect material misstatements, evaluate internal control systems, and support high-quality financial reporting.

According to the International Federation of Accountants (IFAC, 2022), audit committee members with financial expertise provide independent and informed oversight over financial reporting and risk management processes. Such expertise strengthens corporate governance mechanisms and enhances stakeholder confidence in the reliability of financial statements. Similarly, the Financial Reporting Council (FRC, 2024) emphasizes that the effectiveness of an audit committee depends largely on the financial literacy and professional competence of its members.

Recent studies have highlighted the importance of financial expertise in improving governance outcomes. Alhababsah and Yekini (2021) argue that audit committee members possessing accounting and financial experience contribute significantly to higher reporting quality and lower earnings manipulation. Likewise, Raimo et al. (2022) found that firms with financially experienced audit committee members exhibit greater transparency and improved disclosure quality. In addition, Velte (2023) notes that audit committee financial expertise enhances monitoring effectiveness and reduces information asymmetry between management and shareholders, thereby improving corporate accountability.

From the perspective of agency theory, audit committee financial expertise serves as an effective monitoring mechanism that mitigates agency conflicts arising from the separation of ownership and control (Jensen & Meckling, 1976). Financial experts possess the ability to critically evaluate management decisions, assess risk exposures, and ensure compliance with accounting standards and regulatory requirements. Consequently, firms with financially sophisticated audit committees are more likely to achieve better governance quality and stronger financial performance.

In empirical studies, audit committee financial expertise is commonly measured as the proportion or percentage of audit committee members possessing accounting or financial qualifications and professional experience. Some researchers also employ a dummy

variable indicating the presence of at least one financial expert on the committee (Raimo et al., 2022). Thus, audit committee financial expertise represents the extent to which committee members possess the technical competence necessary to effectively monitor financial reporting and safeguard shareholders' interests.

2.2 Theoretical Framework

2.2.1 Stakeholder Theory

Stakeholder theory, developed by Freeman (1984), offers a broad perspective on corporate governance by emphasizing that organizations must consider the interests of all stakeholders, not just shareholders. Stakeholders include investors, employees, customers, regulators, creditors, suppliers, and the wider community. This theory posits that corporate decisions, including those related to auditing, should align with the expectations of all these groups to maintain trust and legitimacy. The theory challenges the traditional shareholder-centric model by advocating for transparency, accountability, and ethical responsibility in business practices.

In the context of auditing, stakeholder theory underscores the importance of audit quality as a mechanism to enhance the reliability of financial information, which is critical for informed decision-making by various stakeholders. For industrial goods firms, stakeholders often have heightened expectations for accurate financial reporting and governance due to the capital-intensive and regulatory-sensitive nature of the industry. A high-quality audit process provides assurance to stakeholders about the integrity of the firm’s financial statements, thereby reducing information asymmetry and fostering trust.

Audit committees with financial expertise play a pivotal role in meeting stakeholder expectations. Their knowledge and skills enable them to scrutinize complex financial issues, challenge management's decisions, and ensure that external auditors perform their duties effectively. This expertise moderates the relationship between firm size and audit quality by ensuring that larger firms, which typically face more complex financial reporting requirements, adhere to the highest standards of accountability. Such oversight is critical for addressing the concerns of stakeholders who depend on accurate financial disclosures for decision-making (Al-Dhamari&Chandren, 2018).

Furthermore, the application of stakeholder theory highlights the interconnectedness of firm size, audit quality, and governance mechanisms. For example, in large industrial goods firms, stakeholders such as institutional investors and regulatory bodies often demand greater audit assurance to mitigate risks associated with financial misstatements. Audit committees with financial expertise can address these demands by ensuring that audit fees, tenure, and size are appropriately aligned with the complexity and scale of the firm’s operations (Rahman et al., 2020). Conversely, in smaller firms, stakeholder

expectations may differ, focusing more on cost efficiency rather than the breadth of audit services.

Stakeholder theory also explains the broader social implications of audit quality. High-quality audits not only satisfy immediate stakeholder needs but also enhance the reputation and sustainability of the firm in the long term. Industrial goods firms, which often operate in sectors with significant environmental and societal impacts, must demonstrate accountability through reliable audits to address the interests of diverse stakeholder groups, including communities and regulators. Audit committees with financial expertise are uniquely positioned to ensure that auditing practices align with these broader responsibilities, thereby reinforcing the firm's legitimacy and stakeholder trust (Rezaee & Lander, 2017).

2.3 Empirical Review

Obeitoh, et al (2024) examined the moderating role of audit committee expertise on the relationship between board attributes and earnings quality. The study carried out a panel-corrected standard error (PCSE) analysis to address an econometric challenge using an 11-year panel dataset. The data were sourced from the published annual reports of financial services firms listed on the Nigerian Exchange Group. The findings from the study revealed that board size, board independence, board meetings, board gender diversity, board expertise, and audit committee expertise promoted various measures of earnings quality. The findings also revealed that audit committee expertise moderated the association between some board attributes and earnings quality. The study implied that board attributes and audit committee expertise were important factors in promoting earnings quality.

Elmashtawy et al. (2024) assessed the moderating effect of joint audit (JA) on the relationship between audit committee effectiveness (ACEFF) and audit quality (AQ) in Egypt. The sample included 61 non-financial corporations listed on the Egyptian Exchange from 2016 to 2020. The results were estimated using panel data analysis with fixed-effect models. The findings exhibited that audit committee (AC) independence, ACEFF, and audit firm size negatively affected AQ. Conversely, the influence of AC meetings on AQ was positive and significant. The findings also revealed that JA moderated the relationship between ACEFF and AQ.

Almarayeh (2024) examined the under-researched relationship between audit committee independence and earnings management in several emerging Middle Eastern and North African (MENA) countries. Ordinary least squares regression was used to study the association between audit committee independence and earnings management in a sample of 3,206 firm-year observations from 2007 to 2017. The data were obtained from the Thomson Reuters Compustat database. The main results showed that audit committee

independence had a negative association with accrual-based earnings management. The results also documented no evidence suggesting that audit committee independence had any significant relationship with real earnings management.

Bawuah (2024) investigated the effect of Audit Committee Effectiveness (ACE) on Earnings Management (EM) and examined whether audit quality (Big4) moderated the link between ACE and EM in Ghana. The study used panel data from 25 non-financial firms in Ghana and employed fixed-effect (FE) and Two-Stage Least Squares (2SLS) regression methods. The evidence showed that ACE (AC independence, AC size, and AC meetings) constrained EM, with the effect being stronger for AC independence. Thus, firms with ACE tended to report lower earnings management. Further analysis revealed that the combined effects of Big4 and ACE (AC independence and AC meetings) on EM were stronger than ACE alone. This suggested that audit quality negatively moderated the link between ACE and EM. Additionally, leverage, profit, cash flow, and firm size affected EM.

Rudyanto (2024) focused on audit committees' power and financial expertise. In this research, manufacturing companies listed on the Indonesia Stock Exchange during COVID-19 were used as samples, resulting in 363 observations. The study employed the statistical technique of multiple linear regression using the software program SPSS. It was found that financial expertise had a positive effect on earnings management, while audit committees' power had no effect on earnings management. Based on the available evidence, it was inferred that audit committees did not serve as an effective monitoring instrument for mitigating earnings management in the context of the COVID-19 pandemic. However, audit committees composed of financial experts advocated for the practice of earnings management as a means for corporations to enhance their perception of profitability. This study was one of the first to show that audit committees were ineffective in mitigating earnings management practices during the COVID-19 period.

Alruwaili (2024) confirmed the role of audit committee (AC) attributes in curbing earnings management (EM), specifically discretionary accruals (DA). The study also explored the moderating impact of audit quality (AQ), represented by Big 4 companies, on the association between AC attributes and DA. The research utilized data from insurance businesses listed on the Saudi Stock Exchange (Tadawul) over an eight-year period (2014–2021). The analysis revealed that AC size, commitment, meetings, and independence negatively and significantly influenced DA. However, AC experience was not linked to DA. The impact of moderating variables was also examined, with AQ having a significant and negative moderating influence on the association between audit committee size and DA. Furthermore, AQ did not affect the relationship between DA and other AC attributes. These findings provided valuable insights for investors and shareholders in evaluating the trustworthiness and quality of annual reporting for

companies listed on Tadawul and for policymakers in Saudi Arabia to strengthen regulations promoting reliable financial statements.

Yamin and Aryati (2024) explored the effectiveness of audit committee features, such as the total members, meeting frequency, financial competence, and independence, as determinants of asymmetric information with audit quality as a moderating variable. They employed a regression model with panel data, analyzing 260 firm-year observations for entities whose shares traded on the Indonesia Stock Market from 2017 to 2021. The analysis uncovered that meeting frequency was statistically significant in reducing asymmetric information, and audit quality enhanced this relationship. In contrast, there was no observed correlation between total members, financial competence, or independence with asymmetric information. Additionally, audit quality did not moderate the relationship between these attributes and asymmetric information.

Freihat et al. (2024) investigated the relationship between Audit Committee (AC) characteristics and earnings management (EM) and the effect of external Audit Quality (AQ) on this relationship. Using panel data from listed non-financial firms on the Amman Stock Exchange (ASE) for the years 2015–2021, the findings revealed that AC activity and AC expertise had a significant and negative influence on EM practices, measured by discretionary accrual levels. These mechanisms restricted managerial opportunistic behavior and prevented EM practices in the Jordanian context. However, AC independence exhibited a significantly positive influence on EM practices. The moderating effect of external AQ was also significant, as AQ moderated the relationships between AC activity, AC expertise, and EM practices. The findings added to the debate on the role of AC characteristics in mitigating EM practices in developing markets, offering insights that could be generalized to other economies with similar contextual characteristics.

Essien et al., (2024) examined the effect of audit committee effectiveness on financial reporting quality within the context of listed non-financial firms in Sub-Saharan Africa. Drawing samples from 235 listed non-financial firms in Nigeria, South Africa, and Kenya spanning the period from 2013 to 2022, the study employed Generalized Method of Moments (GMM) and Stepwise Regression Techniques to analyze the data. The primary objective was to investigate the effect of audit committee effectiveness, including size, diligence, and financial expertise, on financial reporting quality, as measured by Jones Discretionary Accrual. The study also extended this objective by examining the moderating role of board independence on the relationship between audit committee attributes and financial reporting quality. The findings revealed that audit committee diligence [coef. = 0.041 (0.002)] had a positive and significant effect on financial reporting quality, suggesting that increased diligence improved financial reporting quality. However, audit committee size [coef. = 0.011 (0.236)] and financial expertise [coef. = 0.003 (0.990)] exhibited insignificant effects on financial reporting quality. Additionally,

the study identified board independence [coef. = 0.022 (0.001)] as a significant moderator, enhancing the impact of audit committee diligence on financial reporting quality. Based on these findings, the study recommended promoting active audit committee oversight through regular meetings, fostering collaboration between audit committees and boards, and ensuring a majority of independent directors to strengthen audit committee effectiveness. It also underscored the importance of continuous monitoring and evaluation of audit committee effectiveness to address emerging challenges and promote transparency and accountability in financial reporting.

Hyellaki, et al (2024) investigated the effect of audit committee characteristics on audit report lag of listed consumer goods companies in Nigeria. Data were derived from the annual reports of ten consumer goods companies listed on the Nigerian Stock Exchange for the period 2012 to 2022. Using autoregressive distributive lag analysis, the regression results revealed that a positive and significant relationship existed between audit committee size, audit committee independence, and audit committee expertise. The study also found a positive but insignificant relationship between audit committee meetings and audit report lag, a positive and significant relationship between leverage and audit report lag, and a negative and insignificant relationship between board size and audit report lag.

Freihat, et al (2024) investigated the relationship between Audit Committee (AC) characteristics and earnings management (EM), as well as the effect of external audit quality (AQ) on this relationship. Using panel data from listed non-financial firms on the Amman Stock Exchange (ASE) for the years 2015–2021, the findings showed that AC activity and AC expertise had significant negative effects on EM practices (measured by discretionary accrual levels). These findings indicated that such mechanisms restricted managerial opportunistic behavior, thereby preventing EM practices in the Jordanian context. However, AC independence was found to have a significant positive effect on EM practices. Regarding the moderating effect, the study found that external AQ moderated the relationships between AC activity, AC expertise, and EM practices. The study's outcomes added to the debate regarding the role of AC characteristics in mitigating EM practices in developing markets, particularly in Jordan, by considering external AQ as a moderating variable. The findings were deemed generalizable to similar developing economies with comparable contextual characteristics.

Lazarus, et al (2024) examined the influence of audit committees on earnings management among consumer companies listed in Nigeria, with a focus on the moderating role of auditor size. A sample of twelve listed consumer companies that consistently published audited annual reports from 2012 to 2021 was used. The research employed secondary data and multiple regression analysis. The study revealed that audit committee size, gender, and financial expertise had insignificant effects on earnings management, while audit committee independence had a significant effect on earnings

management. The study concluded that consumer goods firms in Nigeria demonstrated higher financial reporting quality when the audit committee was independent.

Alduneibat (2024) investigated the level of disclosure of Key Audit Matters (KAMs) in the audit reports of Jordanian companies listed on the Amman Stock Exchange (ASE) as required by the International Standard on Auditing 701 (ISA 701). The study also examined the factors affecting the level of KAM disclosure. To accomplish its objectives, 324 annual audit reports from 2017 through 2019 of 108 companies were analyzed. Potential KAM issues were recognized through companies' audit reports, while corporate characteristics were gathered from companies' annual reports. Three major analytical methods were applied to analyze the defined model and the data: descriptive statistics, correlation, and ordinary least squares (OLS) regression analysis. The results demonstrated that the mean of the KAM-disclosure level was 1.58, which was considered relatively low. Positive relationships were identified between the number of KAMs disclosed and the independent variables, including size, leverage, indebtedness, auditors' fees, and Big Four audit firm size. However, negative relationships were observed between the level of KAMs disclosed and two independent factors: profitability and modified opinions. Additionally, the results revealed that accounts receivable and provisions represented the highest levels of KAM reporting ratios.

Lazarus, Agbi, and Ibiamke (2024) examined the influence of the audit committee on earnings management in consumer companies listed in Nigeria, with the moderating role of auditor size. A sample of 12 listed consumer companies that consistently published audited annual reports from 2012 to 2021 was used. The study employed secondary data and utilized the multiple regression technique for analysis. The findings revealed that audit committee size, gender, and financial expertise had an insignificant effect on earnings management, while audit committee independence significantly impacted earnings management in listed consumer goods firms in Nigeria.

Adeyemi and Yahaya (2024) explored the impact of board financial expertise on the earnings quality of Nigerian listed companies, addressing a critical area of interest given pervasive concerns about financial reporting reliability in emerging markets. The study investigated whether the presence of financially knowledgeable board members, particularly those with expertise in accounting and finance, could enhance earnings quality. The researchers utilized a robust empirical approach with data from Nigerian companies listed on the Nigerian Exchange Group (NGX). Key metrics of earnings quality, including earnings management practices, accruals quality, and earnings persistence and predictability, were analyzed. The findings revealed that board financial expertise was positively associated with higher earnings quality. This positive relationship was particularly pronounced in firms with larger boards and those operating in more regulated industries.

Hayati and Atiningsih (2024) examined the mediating effect of key audit matters (KAMs) on the relationship between audit quality and earnings management in consumer goods companies listed on the Indonesia Stock Exchange in 2022. The study used a sample of 85 companies selected through specific criteria and applied multiple regression analysis as its data analysis technique. The findings indicated that audit quality significantly influenced KAMs, and KAMs significantly affected earnings management. Additionally, audit quality was found to significantly impact earnings management. KAMs were identified as a mediating factor between audit quality and earnings management. The study suggested that high audit quality and well-addressed KAM conditions could reduce earnings management, benefiting management in mitigating risks related to earnings management.

3.0 Methodology

This study adopted an *ex post facto* research design, which was suitable for analysing historical data to determine the effect of variables. The *ex post facto* approach was particularly relevant because it involved the use of using secondary data collected over a defined period (2015 - 2024) without manipulating the variables under investigation.The study focuses on industrial goods firms listed on the Nigerian Exchange Group (NGX). This sector includes companies involved in manufacturing and distribution of building materials, electrical goods, chemicals, and other industrial products. The choice of this area is informed by the importance of the industrial goods sector to Nigeria's economy and the regulatory requirements for financial reporting and auditing among listed firms.The study relied on secondary data, which were historical and publicly available. These data were sourced from annual financial reports of listed industrial goods firms, NGX Factbooks, company profiles, audit firms' disclosures on fees, tenure, and audit size, as well as corporate governance reports detailing audit committee composition and expertise. The population of the study comprised all industrial goods firms listed on the Nigerian Exchange Group as at of December 31, 2024. According to the Nigerian Exchange Group, this includes 11 industrial goods firms, forming the total population from which the sample size weredrawn.The sample size was determined using the purposive sampling technique. Firms were selected based on the following criteria:Continuous listing on the NGX from 2015 to 2024, availability of complete financial and governance data for the study period, and existence of an audit committee with disclosed financial expertise.Based on these criteria, the sample consists of about 11 firms, which represent a significant portion of the industrial goods sector while ensuring the availability of relevant data. The Industrial Goods firms are; Dangote Cement PLC, Tafarge Africa PLC, BUA Cement PLC. Bulins Berger Nigeria PLC, Beta Glass PLC, Berger Paints PLC, CAP PLC, Cufix PLC, Austin Laz & Company PLC, John Holt PLC, Mikano International Limited. The study employed quantitative data analysis to examine the relationships among the variables. Descriptive statistics were used to summarize the data, providing insights into the distribution and central tendencies of the dataset. Inferential statistics, including regression analysis, were applied to test the hypotheses, as

this method allows for assessing the cause-and-effect relationships among variables and isolating the effects of the moderating variable. Regression analysis was particularly justified in this study due to its widespread use in similar empirical research. The use of regression analysis in this study enables the evaluation of direct effects, interaction terms, and control variables, making it a robust tool for testing the hypotheses. Additionally, correlation analysis was conducted to examine the strength and direction of relationships among variables, providing a preliminary understanding of their relationship.The primary technique of analysis is panel regression analysis, which accounts for both cross-sectional and time-series dimensions of the data. Fixed effects and random effects models are tested to determine the most appropriate specification using the Hausman test. The moderation effect of audit committee financial expertise was evaluated using interaction terms in the regression models.

Table 3.1: Operationalization of Variables

Variable	**Measurement**	**Source**
Dependent Variables		
Audit Quality (Auditor Independence (ADI)	Measured by the extent of non-audit services provided by the auditor(Non-Audit Services Ratio = Non-Audit Fees ÷ Total Audit Fees)	Tonade et al. (2024); Darmawan (2023); Ajape and Adelowotan (2024)
Independent Variables		
Total Asset (TA)	Natural logarithm of total assets	Kibiya, Che-Ahmad, and Amran (2016); Zgarni, Hlioui, and Zehri (2016)
Total Revenue (TR)	Natural logarithm of total revenue	Derived from company financial statements; implied in Bello et al. (2024)
Market Capitalization (MC)	Market price per share × number of shares outstanding	Methodologically implied in Omotoye et al. (2021); Halidu et al. (2024)
Moderating Variable		
Audit Committee Financial Expertise (ACFE)	Proportion of audit committee members with accounting or financial qualifications	Mustafa and Ben (2010); Cohen et al. (2014); Kantudu and Alhassan (2022); Yahaya and Okoroigwe (2022)

Source: Researcher's computation (2025)

Model Specification

The study by Halidu et al. (2024) provides a suitable framework for analyzing the moderating effect of Audit Committee Financial Expertise (ACFE) on firm size and audit quality. Their model incorporate firm size variables, audit quality proxies, and interaction terms to test moderation effects. The original model (Direct Effects) and Moderation Model (Interaction Effects) are presented as follows:
Original Model (Direct Effects):

$$FRQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 FS_{it} + \epsilon_{it} \ldots\ldots\ldots(1)$$

Moderation Model (Interaction Effects):

$$FRQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 FS_{it} + \beta_4 (BS_{it} \text{ x } FS_{it}) + \beta_5 (BI_{it} \text{ x } FS_{it}) + \epsilon_{it} \ldots\ldots(2)$$

Where:
FRQ_{it} : Financial Reporting Quality (measured by discretionary accruals).
BS_{it} : Board Size (number of directors).
BI_{it} : Board Independence (proportion of non-executive directors).
FS_{it} : Firm Size (log of total assets).
BS×FS, BI×FS: Interaction terms testing if firm size moderates governance effects.
ϵ_{it}: Error term

The study adopted and modified the above model to suit the study as follows
Functional forms of the model

AQ = F(TA, TR, MC)

a panel regression model with moderation analysis, specified as follows:
Moderation Model (Interaction Effects):

$$AQ_{it} = \beta_0 + \beta_1 (TA_{it} \times ACFE_{it}) + \beta_2 (TR_{it} \times ACFE_{it}) + \beta_3 (MC_{it} \times ACFE_{it}) + \epsilon_{it} \ldots\ldots\ldots(4)$$

Where:
AQ_{it} : Audit Quality (proxied by Auditor Independence, measured by Audit Fee Ratio**:** Audit fees as a proportion of total fees) for firm i in year t.
TA_{it} : Total Assets (log-transformed for normalization).
TR_{it} : Total Revenue (log-transformed).
MC_{it} : Market Capitalization (log-transformed).
Firm Age (Log-transformed)
$ACFE_{it}$: Audit Committee Financial Expertise (percentage of members with financial/accounting qualifications).
β_0: Intercept.

$\beta_1 - \beta_{11}$: Coefficients for independent and interaction terms.
ε_{it} Error term.

Data Presentation and Analysis

4.1 Data Presentation

The study used data collated from industrial goods firms in Nigeria for the study, within the period of 2015 and 2024. The details of the data and the analysis result were presented in the appendix section.

4.2 Data Analysis

4.2.1 Descriptive Statistics

	AQ	TA	TR	MC	ACFE
Mean	0.210	3.747	3.343	4.848	59.364
Median	0.340	3.336	3.023	4.675	55.000
Maximum	0.720	7.752	7.124	7.752	80.000
Minimum	0.050	1.609	0.693	2.303	40.000
Std. Dev.	0.168	1.661	1.687	1.298	13.527
Skewness	0.144	0.970	0.616	0.367	0.280
Kurtosis	2.165	3.185	2.758	3.016	1.607
Jarque-Bera	3.577	17.404	7.233	2.472	10.332
Probability	0.167	0.000	0.027	0.291	0.006
Sum	38.530	412.155	367.686	533.322	6530.000
Sum Sq. Dev.	3.068	300.623	310.174	183.667	19945.455
Observations	110	110	110	110	110

Source: Researcher's computation (2025)

The descriptive statistics presented in Table 4.1 reveal a generally moderate level of audit quality (AQ), with a mean value of 0.210 and a range from 0.050 to 0.720. This suggests that, on average, the firms in Nigeria's industrial goods sector devote approximately 21.0% of total fees to audit services. The measures of firm characteristics also highlight substantial variability across the sample. Total assets (TA) and total revenue (TR), both logarithmically transformed, have means of 3.747 and 3.343 respectively, with relatively high standard deviations (1.661 and 1.687), indicating significant differences in firm size and operational scale across the sample. Market capitalization (MC) displays a mean of 4.848, suggesting moderately large firms overall, Meanwhile, the average Audit Committee Financial Expertise (ACFE) is roughly 59.4%, suggesting that most firms have a moderately well-qualified audit committee, and firm age (FA) has a mean of approximately 49 years, indicating that many firms have long operational histories.

In terms of distribution, the skewness and kurtosis statistics reflect the nature of the data across variables. Total assets (0.970) and total revenue (0.616) display mild right skewness, suggesting that a subset of firms have substantially larger sizes comparedto the

rest. The Jarque–Bera statistics and associated p-values point to the rejection of normality for several variables such as TA, TR, and ACFE, suggesting that the data may require robust statistical techniques for further analyses. Overall, the results capture a diverse range of firm characteristics within Nigeria's industrial goods sector from 2015–2024, providing a solid basis for assessing the moderating role of audit committee financial expertise on the relationship between firm size and auditing quality.

4.2. Correlation analysis of the moderating effect of audit committee financial expertise

	AQ	TA*ACFE	TR*ACFE	MC*ACFE
AQ	1.000			
TA*ACFE	-0.175	1.000		
TR*ACFE	0.424	0.676	1.000	
MC*ACFE	-0.251	0.991	0.608	1.000

Source: Researcher's computation (2025)

The correlation results in Table 4.2 reveal the nature and strength of relationships between Audit Quality (AQ) and the interaction terms representing the moderating effect of Audit Committee Financial Expertise (ACFE) across various firm characteristics. Audit quality (AQ) shows a moderate positive correlation with TR*ACFE (0.424), suggesting that the interplay between revenue, firm age, and audit committee financial expertise has a positive association with auditing quality. Conversely, AQ has a weak and negative relationship with TA*ACFE (-0.175), MC*ACFE (-0.251), implying that the combined effects of total assets, market capitalization, and geographical location with ACFE might not strongly drive improvements in audit quality within Nigeria's industrial goods firms.

Among the interaction terms themselves, strong to very strong relationships are evident. Notably, TA*ACFE demonstrate an almost perfect positive correlation (0.991), indicating that firms' total assets and their geographical position move almost in tandem when moderated by ACFE. Similar robust relationships are observed between TR*ACFE and NE*ACFE (0.939), MC*ACFE and. These results point to the substantial interplay between firm characteristics and ACFE, highlighting its central role in shaping the quality of auditing across Nigeria's industrial goods sector from 2015–2024.

4.3. Hausman test for the moderating effect of audit committee financial expertise

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.788	3	0.465

Source: Researcher's computation (2025)

Table 4.3 presents the results of the Hausman test conducted to determine the appropriate model specification for assessing the moderating effect of Audit Committee Financial Expertise (ACFE) on the relationship between firm characteristics and Audit Quality. The test yielded a Chi-Square statistic of 3.788 with 6 degrees of freedom and a p-value of 0.465, indicating no significant difference between the fixed and random effects estimators. Since the p-value is well above the conventional 0.05 significance level, the null hypothesis of no systematic difference between the estimators is accepted, suggesting that the random effects model is more suitable for this analysis. This result confirms that the random effects specification is appropriate for capturing the dynamics of the data in Nigeria's industrial goods firms from 2015–2024.

4.4. Panel least squares regression analysis for the moderating effect of audit committee financial expertise

Dependent Variable: AQ				
Method: Panel EGLS (Cross-section random effects)				
Date: 06/18/25 Time: 03:31				
Sample: 2015 2024				
Periods included: 10				
Cross-sections included: 11				
Total panel (balanced) observations: 110				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
TA*ACFE	0.451	0.169	2.670	0.032
TR*ACFE	0.834	0.195	4.273	0.000
MC*ACFE	2.127	0.444	4.791	0.000
C	0.374	0.091	4.108	0.000
	Effects Specification			
			S.D.	Rho
Cross-section random			0	0
Idiosyncratic random			0.166	1
	Weighted Statistics			
R-squared	0.378766	Mean dependent var		0.350273
Adjusted R-squared	0.281695	S.D. dependent var		0.167762
S.E. of regression	0.169279	Sum squared resid		2.951498
F-statistic	6.758119	Durbin-Watson stat		2.223061
Prob(F-statistic)	0.006694			
	Unweighted Statistics			
R-squared	0.378766	Mean dependent var		0.350273
Sum squared resid	2.951498	Durbin-Watson stat		2.223061

*** and ** are significant at 1% and 5%

Source: Researcher's computation (2026)

The results of the panel least squares regression presented in Table 4.4 reveal significant moderating effects of Audit Committee Financial Expertise (ACFE) on the relationship between firm size variables and audit quality (AQ) across the sampled firms from 2015–2024. The interaction terms TA*ACFE (coefficient = 0.451, p = 0.032), TR*ACFE (coefficient = 0.834, p = 0.000), MC*ACFE (coefficient = 2.127, p = 0.000). These findings imply that the expertise of the audit committee is critical in leveraging certain size-related characteristics of firms to improve the quality of auditing, especially those related to financial size and corporate longevity.

The model provides a satisfactory fit for the data, with an R-squared value of 0.3788, indicating that approximately 37.9% of the variations in audit quality across firms are explained by the combined effects of the interaction terms and the control variable. The adjusted R-squared of 0.2817 further confirms the model's explanatory strength after adjusting for the number of predictors. The F-statistic (6.758, p = 0.0067) suggests that the overall model is statistically significant, while the Durbin–Watson statistic of 2.22 confirms the absence of serious autocorrelation in the residuals. In general, the results highlight the pivotal role that a well-qualified and financially literate audit committee can play in reinforcing the association between certain measures of firm size and enhanced audit quality within Nigeria's industrial goods sector.

Discussion of Findings

HO_1: Total assets have no moderating significant effect on auditing quality of industrial goods firms in Nigeria

The regression results reveal that total assets (TA) exhibit a positive and statistically significant influence on audit quality, with a coefficient of 0.523 and a p-value of 0.000, indicating significance at the 1% level. This means that, all else being equal, a one-unit increase in the natural logarithm of total assets is associated with an increase in audit quality among listed industrial goods firms in Nigeria. This suggests that larger firms are more likely to engage in audit practices that enhance auditor independence. This result is consistent with the expectation that firms with substantial assets face more complex operations and higher financial reporting risks, necessitating more robust and independent audit processes to assure stakeholders of the credibility of their financial reports. Larger firms are also more likely to attract the attention of regulators, institutional investors, and the general public, prompting them to invest in high-quality audits to maintain trust and comply with regulatory expectations.

The finding aligns with several empirical studies. For instance, Halidu et al. (2024) found that firm size significantly moderates the relationship between governance structures and financial reporting quality, with larger firms demonstrating improved oversight and audit outcomes. Similarly, Bello et al. (2024) observed that firm size amplifies the effects of financial expertise on audit quality, emphasizing that audit committee performance is more impactful in larger organisations. According to Ibrahim and Thomas (2024), firms with greater asset bases often adopt stronger internal control systems, which include audit committees staffed with financially literate members to safeguard the integrity of reporting. These findings are rooted in agency theory, which posits that larger firms experience greater agency problems due to the divergence of interests between management and shareholders. Independent and high-quality audits thus serve as critical mechanisms for mitigating such conflicts. Therefore, the positive and significant

relationship between total assets and audit quality underscores the necessity for expansive firms to maintain high audit standards as a means of preserving credibility, ensuring transparency, and reinforcing investor confidence.

HO_2: Total revenue has no moderating significant effect on auditing quality of industrial goods firms in Nigeria

The regression analysis shows that total revenue (TR) has a negative coefficient of -0.255, but this effect is statistically insignificant, with a p-value of 0.900. This implies that variations in firm revenue do not meaningfully influence audit quality (proxied by auditor independence) in industrial goods firms in Nigeria over the period studied. Despite expectations that firms with higher revenues may invest more in quality audits to protect their reputations and financial integrity, the result suggests that revenue size alone does not drive audit quality decisions. This could be because revenues can be volatile and affected by temporary operational factors, market shocks, or seasonal trends, making them a less reliable indicator of the structural audit needs of a firm. Furthermore, some firms may experience high revenues without corresponding complexity or risk levels that necessitate enhanced audit procedures.

This finding is consistent with the empirical evidence presented by Ajape and Adelowotan (2024), who found that not all firm-level financial indicators, such as revenue, significantly impact audit quality or earnings management. It also resonates with the findings of Yahaya and Okoroigwe (2022), who reported that audit quality is more strongly influenced by governance mechanisms and structural firm attributes, such as audit committee financial expertise, rather than operational outcomes like revenue. Moreover, revenue figures can be manipulated or aggressively managed through sales strategies or early recognition policies, limiting their usefulness in predicting audit behaviour. Under agency theory, what matters more for audit quality is not necessarily the amount of income earned but the level of information asymmetry and agency risk it creates—risks that may be more accurately proxied by assets, market capitalisation, or firm complexity. Consequently, while revenue is an important financial performance indicator, its insignificant effect here suggests that it does not significantly shape the demand or effectiveness of audit processes in Nigerian industrial goods firms.

HO_3: Market capitalisation has no moderating significant effect on auditing quality of industrial goods firms in Nigeria

The regression output shows that market capitalisation (MC) has a positive and statistically significant effect on audit quality, with a coefficient of 0.342 and a p-value of 0.021, indicating significance at the 5% level. This suggests that firms with higher market value are more inclined to ensure high audit quality, particularly by engaging auditors who maintain greater independencemeasured here by the audit fee ratio. As firms grow in market capitalisation, they attract broader investor bases and heightened scrutiny from stakeholders, regulators, and financial analysts. This external attention compels such firms to maintain strong financial disclosure standards and transparent auditing practices to preserve investor confidence and market reputation. Larger market capitalisation also often implies greater public accountability, pushing firms to adopt rigorous governance mechanisms, including the hiring of top-tier, independent auditors.

Empirical evidence supports this finding. Tonade et al. (2024) noted that firms with greater external visibility, such as those with higher market values, tend to be more cautious in their financial reporting and audit practices to reduce the risk of misreporting. Similarly, Bello and Ugoh (2021) found that audit fees and auditor specialisation had a significant impact on audit outcomes when moderated by audit committee financial expertise factors likely influenced by the firm's market presence. According to agency theory, publicly traded firms with large capitalisation are exposed to increased agency costs and information asymmetry, thus requiring independent auditors to serve as monitoring agents on behalf of dispersed shareholders. Therefore, the significant positive relationship observed in this study suggests that higher market capitalisation serves as an economic incentive for firms to invest in quality auditing as a mechanism to strengthen their corporate credibility, improve earnings transparency, and meet regulatory expectations.

5.0 Summary, Conclusion and Recommendations

5.1 Summary

Total Assets (TA) had a positive and statistically significant moderating effect on audit quality(β =0.451, p = 0.032).

Total Revenue (TR) showed a positive and statistically insignificant moderating effect on audit quality. (β =0.834 , p = 0.000).

Market Capitalization (MC) also had a positive and statistically significant moderating effect on audit quality(β = 2.127, p = 0.000).

5.2 Conclusion

The findings of this study show that audit committee financial expertise plays an important moderating role in the relationship between firm size and audit quality of listed industrial goods firms in Nigeria. Specifically, total assets and market capitalization exerted positive and statistically significant moderating effects on audit quality, indicating that larger firms are better able to leverage the financial expertise of their audit committees to enhance audit quality. Although total revenue exhibited a positive effect, its moderating influence was not statistically significant. Overall, the study concludes that the effectiveness of audit committee financial expertise in improving audit quality is strengthened by certain dimensions of firm size, particularly asset base and market value.

5.3 Recommendations

1. Listed industrial goods firms in Nigeria should strengthen and maintain competent audit committees with members possessing adequate financial expertise, while pursuing strategies that enhance their asset base, since total assets significantly improve the ability of audit committee expertise to promote audit quality.

2. Management should adopt policies that enhance firm value and market capitalization, as stronger market valuation significantly reinforces the positive influence of audit committee financial expertise on audit quality.

3. Firms should not rely solely on revenue growth to improve audit quality but should complement revenue expansion with investments in assets and corporate governance mechanisms that enable audit committees to effectively perform their monitoring functions.

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