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The Audit Committee Paradox: How Bigger Teams Weaken Earnings Quality in Nigerian Industrial Firms

Nestor Ndubuisi Amahalu
Department of Accountancy,
Nnamdi Azikiwe University, Awka, Anambra State, Nigeria.
nn.amahalu@unizik.edu.ng

Michael Ugeoritsete EYIDE
Department of Accounting,
Faculty of Management Sciences,
University of Delta, Agbor, Delta State
Nigeria
michael.eyide@unidel.edu.org

Abstract

This study examined the nexus between audit committee size and earnings quality in Nigerian industrial firms, with the specific objective of determining whether larger audit committees weaken earnings quality. An ex-post facto research design was adopted, using historical data from audited financial statements covering the period 2015 to 2024. The population comprised twelve industrial goods firms listed on the Nigerian Exchange Group, while nine firms were purposively selected based on the availability of complete and consistent financial data. Secondary data were collected from the firms' audited annual reports, including information on audit committee size, firm size, firm leverage, and earnings quality. Panel data analysis using generalized least squares with cross-sectional weights was employed to test the hypothesis at a 5% significance level. The findings revealed a significant negative relationship between audit committee size and earnings quality, indicating that larger committees tend to weaken financial reporting reliability (β = -10.92859, p = 0.0000). Thus, boards of directors of Nigerian industrial firms should evaluate the optimal size of their audit committees and consider limiting membership to a manageable number of skilled and experienced individuals. This will enhance coordination, improve decision-making, and strengthen oversight of financial reporting processes.

Keywords: Audit Committee, Industrial Good Firms, Earnings

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1.0 Introduction

Corporate governance has become a central concern for businesses worldwide, as organizations strive to balance profitability with accountability. In emerging economies like Nigeria, industrial firms face unique challenges arising from rapid economic changes, regulatory shifts, and complex market dynamics. Shareholders and other stakeholders increasingly demand transparency in financial reporting to assess the true performance of firms (Obumneme, Amahalu, & Oranefo, 2026). The need for reliable and accurate financial information is heightened by the presence of diverse investors who rely heavily on published earnings to make decisions. Within this landscape, the audit committee emerges as a critical internal governance mechanism tasked with overseeing financial reporting, ensuring compliance with accounting standards, and monitoring risk management processes. While much attention has been paid to the existence of audit committees, less focus has been given to the specific characteristics of these committees, such as their size and composition, and how these factors shape the quality of earnings reported. This research situates itself within this context, exploring the paradoxical relationship between audit committee size and earnings quality, particularly for Nigerian industrial firms, which operate in an environment characterized by regulatory evolution, resource constraints, and complex ownership structures (Amahalu, et al., 2025; Amedu, et al., (2025).

Earnings quality refers to the degree to which reported earnings accurately reflect a firm's true economic performance (King, et al., 2025). High-quality earnings provide reliable information to investors, creditors, and regulators, supporting sound investment and lending decisions. Poor earnings quality, on the other hand, can obscure a company's financial health, mislead stakeholders, and increase the risk of financial distress or fraudulent reporting (Omonigho., 2025; Nwafor & Amahalu, 2021). Audit committees are one of the primary mechanisms designed to safeguard earnings quality. Their responsibilities include reviewing financial statements, monitoring internal control systems, and liaising with external auditors. Among the attributes of audit committees, size has received considerable attention in corporate governance literature. The size of an audit committee is often viewed as a determinant of its ability to effectively monitor management. Larger committees are thought to bring diverse expertise and perspectives, potentially enhancing oversight and decision-making (Amahalu, et al, 2025). However, recent research suggests that the relationship between committee size and performance is not straightforward. In today's business environment, characterized by fast-paced transactions and increasingly complex financial instruments, simply increasing the number of committee members may not translate into better monitoring. Instead, factors such as coordination difficulties, free-rider behavior, and slower decision-making processes may emerge, undermining the committee's effectiveness (Amahalu, et al., 2025; Omabu, et a., 2021). For Nigerian industrial firms, where governance practices may still be evolving, examining how audit committee size interacts with earnings quality is critical to improving transparency and investor confidence (Aruna, et al., 2024; Nworie, et a., 2022).

The influence of audit committee size on earnings quality is nuanced and can vary depending on the specific context of the firm. In principle, larger committees can provide a wider range of skills, experience, and viewpoints, which should enhance their ability to detect errors, irregularities, or aggressive accounting practices. Members with financial expertise may better understand complex transactions, while those with industry knowledge can provide hint into operational realities that affect reported earnings (Uduehe, et al., 2024; Tom-West, 2021). Despite these potential advantages, empirical evidence indicates that larger committees do not always lead to higher earnings quality. One key explanation is that as

committees grow in size, coordination among members becomes more challenging. Discussions may become less focused, and individual members may rely on others to perform critical oversight functions, leading to gaps in monitoring. Additionally, larger committees may face difficulties in reaching consensus, which can delay timely interventions in financial reporting processes. In some cases, an increase in committee size may inadvertently create a sense of diffusion of responsibility, where no single member feels accountable for identifying or correcting issues (Sylvanus, et. al., 2024). This paradox highlights that simply adding more members to an audit committee does not guarantee improved oversight. Instead, it emphasizes the need to carefully consider optimal committee size and composition in relation to the complexity of the firm's operations and the regulatory environment. For Nigerian industrial firms, understanding this dynamic is especially important because misreporting or earnings manipulation can have significant economic consequences, not only for shareholders but also for the broader market (Aderobaki, et. al., 2024).

In an effective corporate governance framework, audit committees play a key role in ensuring that financial reports accurately reflect a firm's performance. Their responsibilities include reviewing accounting policies, overseeing the work of internal and external auditors, and monitoring management's financial decisions. When audit committees operate efficiently, they help produce earnings reports that are reliable, transparent, and useful for decision-making by investors, creditors, and regulators (Ubeh, et. al., 2024; Amahalu & Obi, 2020). The size and composition of these committees are meant to provide a balance of expertise, experience, and perspectives, allowing thorough scrutiny of financial statements and timely identification of errors or irregularities. This arrangement supports confidence in the company's financial reporting and promotes accountability within the firm.

In practice, however, the relationship between audit committee size and earnings quality in Nigerian industrial firms appears more complicated. Evidence from various firms suggests that larger committees do not always enhance oversight (Isi et al., Cheli, 2024). Some committees have grown in number without improving the skills or engagement of their members, leading to challenges in coordination, delayed decision-making, and unclear distribution of responsibilities. As a result, financial statements may still contain misstatements or fail to fully reflect the firm's economic condition, despite the presence of a formally structured audit committee. This divergence between the intended function of audit committees and the actual outcomes raises concerns about how committee size influences the accuracy and reliability of earnings. Sadly, poor earnings quality can undermine trust in corporate governance mechanisms, discourage investment, and affect the broader market perception of the firm. It may also lead to regulatory scrutiny, legal challenges, or reputational damage, all of which can impose financial and operational costs on the company. For the wider economy, persistent weaknesses in financial reporting may hinder capital market development and limit the growth potential of industrial firms.

Despite the extensive research on audit committee characteristics and financial reporting quality, several gaps remain in the literature, particularly regarding the effect of audit committee size on earnings quality in Nigerian industrial firms. Studies such as Amahalu et.al., (2024); Nwankwo, et al., (2024); Ndu, et. al., (2024); Sylvanus, et al., (2024) have explored audit committee attributes across different sectors and regions, yet their findings are mixed and sometimes contradictory. While some studies report a positive effect of committee size on financial reporting quality (Ezennia & Amahalu, 2024; Mba, et al., 2023), others observe negative or statistically insignificant relationships (Eneh et al., 2023; Amahalu, et a., 2023) Most of these studies focus on broad non-financial sectors, banks, or consumer goods firms, leaving a gap in evidence specific to industrial firms in Nigeria. Furthermore, the methods

used, such as generalized method of moments, pooled OLS, fixed and random effects models, or exploratory factor analysis, often do not account fully for cross-sectional dependence and heteroscedasticity in panel data, which may bias the results. Few studies integrate firm-specific control variables like firm size and leverage to improve model validity, creating potential omissions in explaining variations in earnings quality. In addition, prior research frequently emphasizes aggregate measures or composite indices of audit committee attributes rather than isolating the effect of committee size on earnings quality. Consequently, there is limited empirical evidence on whether increasing audit committee size in Nigerian industrial firms weakens the quality of financial reporting, despite its theoretical and practical importance. This study seeks to fill this gap by focusing explicitly on industrial firms, applying panel estimated generalized least squares with cross-sectional weights to address econometric issues, and incorporating relevant control variables to generate more reliable and sector-specific hints. To recap, the main objective of this study is to examine the relationship between audit committee size and earnings quality in Nigerian industrial firms. Specifically, the study seeks to determine whether larger audit committees weaken earnings quality.

2.0 Literature Review

2.1 Synthesis of Existing Empirical Studies

Empirical studies on the relationship between audit committee size and earnings quality reveal mixed and sometimes contradictory findings. Mazaheri et al. (2026) investigated the mediating role of managerial behavioral biases in Iraq and found that the composite audit committee index, which included size, independence, and financial expertise, did not significantly affect earnings quality. Similarly, Ndubuisi, et al., (2023); Amahalu et al., (2023) reported a positive but statistically insignificant effect of audit committee size on financial reporting quality. These findings suggest that the presence of more audit committee members does not automatically translate into stronger oversight or improved earnings quality, highlighting the need to consider other contextual and behavioral factors that influence the effectiveness of audit committees.

In contrast, several studies identified a positive influence of audit committee size on financial reporting quality, although the effect was context-specific. Amahalu, et al., (2023); Ndubuisi, A.N., Okudo, & Eyide (2023) found that larger audit committees significantly improved financial reporting quality in Jordanian non-financial firms, emphasizing that qualified and diverse members can enhance oversight. Similarly, Adibeli and Amahalu, (2023) demonstrated that adequately sized audit committees in Nigeria positively impacted report credibility, while Amahalu, and Osonwa, (2023). showed that audit committee size, together with shareholder representation and financial expertise, reduced earnings management in Nigerian non-financial firms. These studies indicate that the effectiveness of larger committees may depend on the composition, skills, and active engagement of members, rather than merely increasing the number of members.

Other research highlights the potential negative or negligible effects of increasing audit committee size. Mbonu and Amahalu (2023; Okudo, & Ndubuisi. (2023)) found that audit committee size had a negative but statistically insignificant effect on financial reporting relevance in Nigerian banks, and Okudo, et al., (2023) similarly reported a negative but non significant impact on reporting quality. Amahalu, et al., (2023) observed no significant influence of committee size in consumer goods companies, while Ndubuisi et. al (2022) noted weak positive relationships in industrial goods firms. Orife et al. (2022) also reported that committee size had a positive but insignificant effect in oil and gas firms. These findings

collectively suggest that merely expanding committee size may lead to coordination challenges, free-rider problems, or diluted responsibility, which could undermine the effectiveness of monitoring and reduce the quality of earnings.

A few studies provide subtle hints by examining additional dimensions of audit committee effectiveness. Okoye, et al., (2022) demonstrated that larger committees reduced audit delays, although financial expertise showed limited impact. Aniefor, S.J., & Amahalu, N.N. (2022) found that larger committees constrained earnings management in consumer goods firms, suggesting that size may help mitigate manipulative practices in some contexts. These results highlight that the relationship between committee size and earnings quality is complex, shaped by firm type, industry, regulatory environment, and committee composition. While some evidence points to benefits of adequate sizing, other studies reveal weak or negative outcomes, forming the basis for the audit committee paradox where larger teams do not necessarily strengthen financial reporting. The mixed findings indicate the need for further empirical investigation, particularly in Nigerian industrial firms, to clarify how audit committee size interacts with earnings quality under specific sectoral and governance conditions.

2.2 Theoretical Framework and Development of Research Hypothesis

This study was anchored on Agency Theory which was first developed by Jensen and Meckling in 1976 to explain the relationship between principals, such as shareholders, and agents, such as company managers (Meckling & Jensen, 1976). The theory emerged from the recognition that managers, who are entrusted with running a firm, may act in their own self-interest rather than in the best interest of the owners. This divergence in interests can lead to agency problems, including the mismanagement of resources, earnings manipulation, or financial reporting that does not accurately reflect the firm's performance. Agency Theory provides a foundation for understanding corporate governance mechanisms, such as audit committees, which are established to monitor management and align their actions with the goals of shareholders.

The main postulations of Agency Theory are that agents may pursue personal gains at the expense of principals, and principals must implement monitoring mechanisms to reduce the risks associated with these conflicts. The theory also emphasizes that incentive alignment, transparency, and accountability are critical for mitigating agency problems. Managers may engage in opportunistic behaviors, such as manipulating earnings or withholding information, and principals need governance structures, including boards and audit committees, to supervise managerial actions. Properly designed monitoring systems can limit the likelihood of financial misreporting and encourage managers to act in the firm's and shareholders' best interests (Ndubuisi & Obi, 2020).

Agency Theory is relevant to this study because it explains why audit committees are necessary in ensuring high-quality financial reporting. The theory suggests that when committees are effectively sized and composed, they can serve as a mechanism to monitor management and reduce opportunistic behavior that could weaken earnings quality. However, the theory also allows for the possibility that larger committees may not always function efficiently, as coordination difficulties or diffusion of responsibility may reduce oversight effectiveness. Applying Agency Theory, this study examines whether increasing audit committee size in Nigerian industrial firms strengthens monitoring or inadvertently leads to weaker earnings quality, providing a theoretical basis for understanding the audit committee paradox.Thus, the study hypothesised that:

H_1: There is a significant negative relationship between audit committee size and earnings quality in Nigerian industrial firms, such that an increase in the size of the audit committee is associated with a decrease in the quality of reported earnings.

3.0 Methodology

This study adopted an *ex-post facto* research design to examine the relationship between audit committee size and earnings quality in Nigerian industrial firms. The *ex-post facto* approach was suitable because the variables of interest had already occurred and could not be manipulated by the researcher (Nworie et al.,). Historical data embedded in audited financial statements provided the basis for analyzing how variations in audit committee size may have influenced earnings quality over the ten-year period from 2015 to 2024. The design allowed for observation and statistical assessment of patterns and relationships among the variables across time and firms. The population consisted of all twelve industrial goods firms listed on the Nigerian Exchange Group as of December 31, 2024. These firms are: Austin Laz & Company Plc, Berger Paints Plc, Beta Glass Plc, BUA Cement Plc, CAP Plc, Cutix Plc, Dangote Cement Plc, Greif Nigeria Plc, Lafarge Africa Plc, Meyer Plc, Premier Paints Plc, and Tripple Gee and Company Plc.

Nine firms were purposively selected from the population based on the availability of complete and consistent financial data for the 2015–2024 period. Firms with incomplete records or missing audit committee information were excluded. The selected sample included: Austin Laz & Company Plc, Berger Paints Plc, Beta Glass Plc, CAP Plc, Cutix Plc, Dangote Cement Plc, Lafarge Africa Plc, Meyer Plc, and Tripple Gee and Company Plc.

Secondary data were obtained from the audited annual reports of the sampled firms for the period 2015–2024. The data included information on audit committee size, firm size measured as the natural log of total assets, firm leverage as the debt-to-asset ratio, and earnings quality proxied by the operating cash flow to net income ratio.

The dependent variable, earnings quality, was measured as the ratio of operating cash flow to net income. The main independent variable, audit committee size, was measured by counting the total number of members. Firm size and firm leverage were included as control variables to improve model validity and account for firm-specific characteristics.

The study specified the following model:

$$ENQ_{it} = \alpha_0 + \beta_1 ACS_{it} + \beta_2 FSZ_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

Where

EQ_{it} represents earnings quality of firm i at time t,

ACS_{it} is audit committee size,

FSZ_{it} is firm size,

LEV_{it} is firm leverage,

$\alpha 0$ is the intercept,

β_1, β_2, and β_3 are coefficients, and

ε_{it} is the error term.

Panel data analysis was employed to estimate the relationship between audit committee size and earnings quality, accounting for both cross-sectional and time-series variations. Initial diagnostic tests indicated the presence of cross-sectional dependence and heteroscedasticity in the data. To address these issues, panel estimated generalized least squares with cross-sectional weights was applied. Descriptive statistics, including means, standard deviations, and minimum and maximum values, were calculated to summarize the data. All analyses were conducted using EViews 10 software, which facilitated robust econometric testing and accurate estimation of the regression model.

Hypotheses were tested at a 5% significance level. A p-value below 0.05 led to the rejection of the null hypothesis, indicating a statistically significant relationship between audit committee size and earnings quality. A p-value above 0.05 implied acceptance of the null hypothesis, suggesting no significant effect.

4.0 Data Analysis

4.1 Descriptive Analysis and Model Diagnostics

Table 4.1 Descriptive Statistics

	ENQ	ACS	FSZ	LEV
Mean	23.39898	5.344444	7.218088	0.416632
Median	0.973512	5.000000	6.707447	0.405109
Maximum	2044.330	7.000000	9.715570	0.872973
Minimum	-144.5121	4.000000	6.114804	0.028268
Std. Dev.	216.2041	0.766740	1.089848	0.189933
Skewness	9.221734	0.232010	0.917760	-0.058409
Kurtosis	86.74298	2.752818	2.361682	3.231529
Jarque-Bera	27573.93	1.036549	14.16220	0.252196
Probability	0.000000	0.595547	0.000841	0.881528
Sum	2105.908	481.0000	649.6279	37.49688
Sum Sq. Dev.	4160237.	52.32222	105.7114	3.210640
Observations	90	90	90	90

Source: Eviews 10 Output (2026)

Earnings quality (ENQ) in Table 4.1 shows a mean of 23.40, suggesting that on average, firms generated relatively low operating cash flow relative to net income. The maximum of 2044.33 and minimum of -144.51 indicate extreme variations, which is reflected in the high standard deviation of 216.20, showing that ENQ values are widely dispersed. Skewness of 9.22 and kurtosis of 86.74 reveal a highly right-skewed and leptokurtic distribution, meaning most observations cluster at low values with few extreme highs. The Jarque-Bera probability of 0.000 signals non-normality. However, with 90 observations, the central limit theorem allows for reliable estimation in regression despite this non-normality.

Audit committee size (ACS) has a mean of 5.34, indicating that most committees had around five members. The standard deviation of 0.77 and a range from 4 to 7 show that committee sizes were fairly consistent across firms. Skewness of 0.23 and kurtosis of 2.75 suggest a nearly symmetrical and mesokurtic distribution. The Jarque-Bera probability of 0.596 implies ACS is approximately normally distributed, supporting its suitability for statistical modeling in this study.

Firm size (FSZ) presents a mean of 7.22, with values ranging from 6.11 to 9.72 and a standard deviation of 1.09, indicating moderate variation in total assets across firms. Positive

skewness of 0.92 shows some firms are much larger than the average, and kurtosis of 2.36 reflects a slightly flat distribution. The Jarque-Bera probability of 0.0008 suggests the distribution deviates from normality, though the central limit theorem ensures valid inference given 90 observations.

Leverage (LEV) has a mean of 0.42, showing moderate leverage on average. The minimum of 0.03 and maximum of 0.87, with a standard deviation of 0.19, indicate moderate variation. Skewness of -0.06 and kurtosis of 3.23 suggest the data is nearly symmetric with a normal-like tail. Jarque-Bera probability of 0.882 confirms normality, making LEV appropriate for inclusion in regression analysis.

Table 4.2 Model Diagnostics

Test Type	Test / Statistic	Value	Probability
Residual Cross-Section Dependence Test	Breusch-Pagan LM	54.65670	0.0239
Panel Cross-Section Heteroskedasticity LR Test	Likelihood Ratio	709.7623	0.0000

Source: Eviews 10 Output (2026)

The **Residual Cross-Section Dependence Test** reported in Table 4.2 uses the Breusch-Pagan LM statistic to check whether residuals across firms are correlated in the panel data. A value of 54.66 with a probability of 0.0239 indicates significant cross-sectional dependence, meaning that shocks or unobserved factors in one firm may influence other firms. This test is essential because ignoring cross-sectional dependence can bias standard errors and lead to unreliable regression estimates, so it highlights the need for an estimation method that accounts for these correlations.

The **Panel Cross-Section Heteroskedasticity Test** in Table 4.2 employs the Likelihood Ratio statistic to assess whether the variance of residuals is constant across firms. The LR value of 709.76 with a probability of 0.0000 indicates significant heteroskedasticity, showing that some firms exhibit larger fluctuations in the error term than others. This test is important because heteroskedasticity can distort parameter estimates and their standard errors, and identifying it justifies the use of robust estimation techniques, such as panel generalized least squares with cross-sectional weights, to produce efficient and reliable results.

Test of Hypothesis

H_1: There is a significant negative relationship between audit committee size and earnings quality in Nigerian industrial firms, such that an increase in the size of the audit committee is associated with a decrease in the quality of reported earnings.

Table 4.3 Test of Hypothesis

Dependent Variable: ENQ
Method: Panel EGLS (Cross-section SUR)
Date: 02/11/26 Time: 12:51
Sample: 2015 2024
Periods included: 10
Cross-sections included: 9
Total panel (balanced) observations: 90
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACS	-10.92859	1.638748	-6.668864	0.0000
FSZ	-13.86087	0.900680	-15.38934	0.0000
LEV	-198.4418	13.61400	-14.57630	0.0000
C	260.3235	19.90459	13.07856	0.0000

Weighted Statistics

R-squared	0.758813	Mean dependent var	0.106169
Adjusted R-squared	0.750399	S.D. dependent var	1.897436
S.E. of regression	0.946720	Sum squared resid	77.07994
F-statistic	90.18974	Durbin-Watson stat	1.916841
Prob(F-statistic)	0.000000		

Source: Eviews 10 Output (2026)

The model validity statistics in Table 4.3 indicate that the regression model is robust and reliable. The adjusted R-squared of 0.7504 suggests that approximately 75% of the variation in earnings quality (ENQ) is explained by the independent variables: audit committee size (ACS), firm size (FSZ), and leverage (LEV). This shows strong explanatory power, meaning the model captures most of the factors influencing earnings quality in the sampled industrial firms. The Durbin-Watson statistic of 1.917 is close to 2, indicating minimal autocorrelation in the residuals. The overall F-statistic is significant at 5% ($p = 0.0000$), confirming that the combination of the independent variables jointly explains a statistically significant portion of the variation in earnings quality.

The constant term (C) has a coefficient of 260.3235 with a probability of 0.0000, indicating that when all independent variables (ACS, FSZ, and LEV) are held at zero, the baseline earnings quality is 260.32. This intercept is statistically significant at the 5% level, reflecting a meaningful baseline level of earnings quality inherent in the firms independent of audit committee size, firm size, or leverage.

The effect of firm size (FSZ) has a coefficient of -13.86087 with a probability of 0.0000. This indicates that as the natural log of total assets increases by one unit, earnings quality decreases by approximately 13.86 units, controlling for audit committee size and leverage. The effect is significant at 5%, suggesting that larger firms tend to report lower-quality earnings, potentially due to more complex operations, increased managerial discretion, or challenges in oversight.

The effect of firm leverage (LEV) is -198.4418 with a probability of 0.0000, showing that a one-unit increase in the debt-to-asset ratio reduces earnings quality by nearly 198.44 units,

holding ACS and FSZ constant. This effect is statistically significant at 5%, demonstrating that highly leveraged firms face pressure that may compromise the quality of financial reporting, possibly because of aggressive earnings management to meet debt obligations or satisfy creditor expectations.

Finding

The effect of audit committee size (ACS) on earnings quality shows a coefficient of -10.92859 with a probability of 0.0000. This means that for every additional member added to the audit committee, earnings quality decreases by about 10.93 units, holding firm size and leverage constant. The effect is statistically significant at 5%, confirming that larger audit committees are associated with weaker earnings quality in Nigerian industrial firms. This finding supports the hypothesis that increasing the size of the audit committee can weaken the quality of reported earnings, highlighting the paradox where more members do not necessarily enhance monitoring.

The finding that larger audit committees weaken earnings quality ($\beta = -10.92859$, $p = 0.0000$) suggests that adding more members does not necessarily improve oversight in Nigerian industrial firms. This may be due to challenges in coordination, slower decision-making, or diffusion of responsibility that arise when committees become too large, reducing their effectiveness in monitoring management. This result aligns with the findings of Okudo, et al., (2022); Modozie & Amahalu, (2022), Ejembi, et al., (2022), and Chukwuka, et al., (2022), who reported negative or statistically non-significant effects of audit committee size on financial reporting quality in Nigerian firms. Similarly, Onyeka, and Amahalu (2022) found that larger committees could reduce earnings management, indicating complex interactions between size and governance effectiveness. Conversely, Udo et al., (2022) and Okocha, (2022) observed a positive effect of committee size, emphasizing that context, sector, and committee composition may influence whether larger committees strengthen or weaken earnings quality. Onyeka, et al., (2022) found that a composite index including size had no significant effect, suggesting that size alone may not determine reporting quality, which supports the notion that increased members can sometimes dilute accountability.

5.0 Conclusion and Recommendation

The results of this study highlight important consequences for corporate governance and financial reporting in Nigerian industrial firms. The negative association between larger audit committees and earnings quality suggests that increasing the number of members does not necessarily improve oversight, and in some cases, may create inefficiencies that compromise the accuracy and reliability of financial statements. This finding challenges common assumptions that more extensive committees automatically enhance monitoring and accountability, revealing that committee size alone cannot guarantee effective supervision of managerial actions. It also highlights the need for careful consideration of internal dynamics within audit committees, as issues such as coordination difficulties, diffusion of responsibility, or slow decision-making may emerge in larger groups. For investors, regulators, and other stakeholders, the study signals that the structure of audit committees can materially affect the quality of reported earnings, influencing trust in financial disclosures and perceptions of firm transparency. Furthermore, the research emphasizes that corporate governance mechanisms must balance quantity with quality, ensuring that the competence, engagement, and efficiency of committee members are sufficient to safeguard financial reporting standards. The findings contribute to a deeper understanding of how governance arrangements interact with financial outcomes in the industrial sector.

Given that larger audit committees weaken financial reporting reliability, boards of directors of Nigerian industrial firms should evaluate the optimal size of their audit committees and consider limiting membership to a manageable number of skilled and experienced individuals. This will enhance coordination, improve decision-making, and strengthen oversight of financial reporting processes.

5.1 Contribution to Knowledge

This study contributes to the literature by providing empirical evidence on the relationship between audit committee size and earnings quality specifically in Nigerian industrial firms, a sector that has received limited attention in prior research. Unlike previous studies that produced mixed or contradictory findings across banks, consumer goods, and non-financial firms, this research isolated the effect of audit committee size on earnings quality while controlling for firm size and leverage. It addressed methodological limitations in earlier studies by applying panel estimated generalized least squares with cross-sectional weights to correct for cross-sectional dependence and heteroscedasticity in the panel data. By focusing exclusively on industrial firms and using robust econometric techniques, the study offers clearer and more reliable evidence on how variations in audit committee size influence financial reporting quality. The findings also challenge the assumption that larger committees always strengthen oversight, showing instead that increasing committee size may weaken earnings quality in this sector. In doing so, the study extends existing knowledge, supports better governance practices, and provides guidance for regulators, investors, and corporate boards seeking to enhance financial transparency in Nigerian industrial firms.

5.2 Limitations of the Study and Suggestion for Further Studies

A limitation of this study is that it focused only on industrial firms listed on the Nigerian Exchange Group, which means the findings may not apply to other sectors or unlisted companies. The study also relied entirely on secondary data from audited financial statements, so any errors or omissions in these reports could affect the results. Additionally, the research covered a specific ten-year period, which may not reflect changes in governance practices or economic conditions outside this timeframe. The study considered only a few control variables, leaving out other factors that could influence earnings quality.

Future studies could expand the research by including firms from other sectors or unlisted companies to see if the relationship between audit committee size and earnings quality is similar. Researchers could also use primary data such as interviews or surveys to gain more detailed information about audit committee activities and practices. Longer periods could be studied to observe trends over time. Including additional variables, such as audit committee expertise, independence, or board characteristics, could help explain more about what affects earnings quality. This would provide a broader and more complete understanding of audit committee effectiveness.

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