

Corporate Governance and Financial Reporting Quality of Listed Manufacturing Companies in Nigeria

Obayagbona Augustine ¹, Ozele Clement Edojor ², Josiah Mary ³

¹ Department of Accounting, College of Business and Management studies, Igbinedion University, Okada, Edo State.

² PhD, Department of Accounting, College of Business and Management studies, Igbinedion University, Okada, Edo State

³ PhD, Department of Accounting, College of Business and Management studies, Igbinedion University, Okada, Edo State

Email: augustine.obayagbona@iuokada.edu.ng

ARTICLE INFO

Keywords:

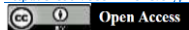
Corporate governance,
board size,
board independence,
audit committee,
ownership structure,
financial reporting quality,
listed companies,
Nigeria.

Vol. 01, No.04, 2026

<https://doi.org/10.5281/zenodo.22913759>

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ABSTRACT

This study examined the influence of corporate governance mechanisms on financial reporting quality of listed companies in Nigeria. Specifically, the study investigated the influence of board size, board independence, audit committee size, and ownership structure on financial reporting quality. The study adopted a *exposit facto* research design and utilised data from 25 listed companies over the period 2016–2025. Financial reporting quality was measured using the modified Jones model, while board size, board independence, audit committee size and ownership structure served as the explanatory variables. Diagnostic tests revealed no serious multicollinearity, cross-sectional dependence or first-order serial correlation; however, heteroskedasticity was detected. Consequently, the study employed panel-corrected standard errors (PCSE) for estimation. The findings revealed that board size has a positive and significant influence on financial reporting quality, while board independence has a negative but insignificant influence. Audit committee size has a negative and insignificant influence at the 5% level, although the relationship is significant at the 10% level. Ownership structure has a positive and significant influence on financial reporting quality. The study concludes that corporate governance mechanisms have mixed effects on financial reporting outcomes among listed manufacturing companies in Nigeria. It recommends that companies and regulatory authorities should focus not only on the formal composition of boards and audit committees but also on their competence, independence, effectiveness and monitoring capacity to enhance the quality of corporate financial reporting.

Introduction

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled (OECD, 2015). It encompasses mechanisms designed to align the interests of management with those of shareholders and other stakeholders. Effective corporate governance reduces agency problems and enhances transparency in financial disclosures. Financial reporting quality is fundamental to the effective functioning of capital markets, as it provides stakeholders with reliable and relevant information for decision-making, and it remains a fundamental concern in modern corporate organisations because, financial reports constitute an important source of information for investors, creditors, regulators, government agencies and other stakeholders. Financial statements provide information about an entity's financial position, financial performance and cash flows, thereby supporting economic decision-making and accountability. Also, the usefulness of financial reports depends largely on the quality, reliability and transparency of the information presented. Dechow et al. (2010) explain that quality financial reports, provides useful information about a firm's underlying economic performance and improves the ability of users to make informed decisions. Conversely, weaknesses in financial reporting can increase information inconsistency, mislead investors and reduce confidence in capital markets. The separation of ownership from managerial control creates an important

challenge for corporate reporting quality, because managers in most cases possess more information about the operations and financial condition of a firm than the shareholders and other external stakeholders. This information puts them at an advantage position, and may create opportunities for them to pursue personal gains or manipulate reported information. The agency theory perspective suggests that conflicts may arise when managers' interests differ from those of shareholders, particularly where monitoring mechanisms are weak (Jensen & Meckling, 1976). Corporate governance has therefore emerged as an important mechanism for aligning managerial actions with shareholders' interests and strengthening the monitoring of management.

Basically, corporate governance in its entirety, refers to the structures, processes and mechanisms used to direct and control companies' affairs. It encompasses the relationships among management, the board of directors, shareholders and other stakeholders and establishes mechanisms for accountability, oversight and responsible decision-making (Claessens & Yurtoglu, 2013). The effectiveness of corporate governance can be seen reduction of agency problems by strengthening managerial monitoring, improving accountability and enhancing transparency. In essence, corporate governance is expected to influence the quality of information provided through corporate financial reports.

One important mechanism of corporate governance is independence of the board, because the board members or directors are expected to provide objective oversight of management which are less likely to be influenced by managerial interests. An independent board may therefore be better positioned to question accounting decisions, monitor financial reporting processes and discourage opportunistic reporting behaviour. In contrast, boards dominated by executive or affiliated directors may have weaker incentives or capacity to challenge management. The effectiveness of a board is consequently relevant to the credibility and quality of financial reporting.

Also, the audit committee is another important governance mechanism, it is as important as the board independence, because it plays a significant role in overseeing financial reporting process, internal control systems and the external audit process. An effective audit committee can enhance communication between management, internal auditors and external auditors, and can provide additional scrutiny of financial statements before they are released to stakeholders. DeFond and Zhang (2014) noted that auditing and related monitoring mechanisms are important components of the financial reporting process because they contribute to the credibility of accounting information.

Another governance mechanism that can determine financial reporting quality is the **Board size**. A larger board size may provide more diversity of knowledge, experience and expertise, thereby improving the oversight job of the board on management. However, when the boards become excessively too large, they may experience difficulties in coordination and communication, thereby reducing their effectiveness. This further goes to say that, the relationship between board size and financial reporting quality may depend on the ability of the board to effectively perform its monitoring responsibilities.

Ownership structure is also another important aspect of corporate governance mechanism, whereby institutional investors with greater resources and expertise can monitor managerial activities and demand high-quality financial information. This their substantial investment positions can also lead to provision of incentives to scrutinise management decisions and reporting practices. Furthermore, management ownership can influence the incentives of managers to provide credible financial information. Conclusively, while managerial ownership may align managers' interests with those of shareholders, excessive managerial control may also reduce external monitoring and create opportunities for managerial entrenchment.

The importance of corporate governance to financial reporting has become increasingly evident following corporate failures and accounting scandals experienced in different economies, such as the

Enron and WorldCom which have highlighted the consequences of weak corporate governance structures on financial reporting integrity (Healy & Palepu, 2003). Events like this suggests that the existence of financial reporting regulations alone may not be able to guarantee quality financial reporting. Weak internal controls, ineffective boards, inadequate audit oversight and conflicts of interest can contribute to inaccurate or misleading financial information. This has increased the attention given to corporate governance as a mechanism for strengthening corporate accountability and improving confidence in financial markets.

This issue in particular is also very relevant in **Nigeria**, because the capital market provides an important avenue for firms to obtain financing and investors to participate in corporate ownership. Listed companies are expected to provide timely and credible financial information to existing and prospective investors. However, concerns about corporate governance practices, financial reporting transparency and managerial accountability continue to generate interest among regulators, academics and market participants. The Nigerian corporate environment is characterised by diverse ownership structures, varying levels of board effectiveness and differences in the quality of corporate monitoring. These characteristics make Nigeria an important setting for investigating whether corporate governance mechanisms influence financial reporting quality.

The Nigerian regulatory environment has introduced several corporate governance and financial reporting requirements aimed at improving corporate accountability and transparency. The **Financial Reporting Council of Nigeria (FRCN)** and the **Nigerian Exchange Group (NGX)** has played important roles in establishing, and enforcing reporting and governance expectations for listed companies. In addition, the adoption of International Financial Reporting Standards (IFRS) in Nigeria has sought to improve the comparability and transparency of financial statements. However, the effectiveness of these institutional arrangements ultimately depends on the quality of implementation, monitoring and enforcement at the firm level.

Theoretically, the **agency theory** provides a strong foundation for examining the relationship between corporate governance and financial reporting quality. Jensen and Meckling (1976) argue that separation of ownership and control can create agency conflicts, because managers may pursue objectives that differ from those of shareholders. This conflicts between managers and owners can be reduced with corporate governance mechanism by increasing monitoring and accountability. Under this arrangement, stronger board independence, effective audit committees and appropriate ownership structures should constrain managerial opportunism and improve the quality of financial reporting.

The relationship can also be examined through the **stakeholder theory**, which places emphasis on the responsibility of organisations to consider the interests of a broader group of stakeholders rather than shareholders alone. High-quality financial reporting promotes transparency, enables stakeholders to assess corporate performance and accountability, while effective governance mechanisms encourage firms to provide more complete and reliable information to stakeholders (Freeman, 1984).

Despite the extensive and numerous literatures on corporate governance and financial reporting quality, empirical findings on the subject matter remain mixed. Some studies report that stronger governance mechanisms improve financial reporting quality, while others find weak, insignificant or even contradictory relationships. These differences may arise from variations in institutional environments, governance structures, ownership patterns, measurement approaches and research periods. Dechow et al. (2010) also observe that financial reporting quality is a multidimensional concept and that different measurement approaches may produce different empirical results.

The continued variation in empirical evidence creates the need for further investigation, particularly within the Nigerian corporate environment. Understanding how specific corporate governance mechanisms affect financial reporting quality can assist regulators and corporate decision-

makers in identifying governance structures that are most effective in improving the credibility of financial information. It can also contribute to the academic literature by providing additional evidence from an emerging-market context.

Therefore, this study investigates the **impact of corporate governance on financial reporting quality in Nigeria**. Specifically, it focuses on selected corporate governance mechanisms, like board independence, board size, audit committee characteristics, institutional ownership and managerial ownership, and examines their influence on the quality of financial reporting. The study is expected to provide useful evidence for regulators, boards of directors, audit committees, investors and other stakeholders interested in strengthening corporate governance and promoting high-quality financial reporting in Nigeria.

Statement of the Problem

Financial reporting quality is fundamental to the effective functioning of capital markets, because investors, creditors, regulators and other stakeholders depend on credible, relevant, reliable and timely financial information when making economic decisions. In Nigeria, concerns about the credibility and transparency of corporate financial reports have continued to attract attention, because weaknesses in corporate governance can create opportunities for managers to manipulate accounting information, conceal poor performance and pursue their personal interests that may conflict with those of shareholders. Therefore, effective corporate governance is the expected solution to provide appropriate monitoring mechanisms that will in turn promote accountability, transparency and the integrity of financial reporting.

Despite the existence of regulatory measures designed to strengthen corporate governance in Nigeria, concerns regarding the quality of corporate financial reporting persist. The Nigerian Code of Corporate Governance (NCCG) 2018 was introduced to promote sound governance practices, while public companies are also subject to the corporate governance guidelines of the Securities and Exchange Commission (SEC). These frameworks emphasise board effectiveness, accountability, transparency, independence and appropriate oversight of corporate activities. However, the existence of governance regulations does not necessarily guarantee effective implementation or consistent compliance by corporate entities.

A major problem is that effectiveness in corporate monitoring can be reduced by the weaknesses in governance structures, which can also in turn increase the possibility of opportunistic managerial behaviour, this can also in turn lead to a situation of the boards becoming ineffective, directors lacking sufficient independence, ownership being excessively concentrated, and audit committees not adequately performing their oversight responsibilities, thereby giving managers greater discretion to influence reported accounting information. Such practices can impair the reliability and usefulness of financial statements and consequently reduce investors' confidence in corporate disclosures. Empirical evidence from Nigeria has also produced mixed findings. In addition, previous studies have reported different effects of board size, board independence, ownership structure and other governance characteristics on financial reporting quality, suggesting that the effectiveness of governance mechanisms usually vary across firms and institutional settings.

Recent evidence from listed Nigerian manufacturing firms, for instance, indicates that board size may significantly affect financial reporting quality while board independence may have an insignificant effect. Similarly, research on listed consumer goods firms has examined specific mechanisms such as board size, board independence, audit committee financial expertise, audit committee meetings and risk management committees in relation to earnings management. These variations in findings indicate that the relationship between corporate governance and financial reporting quality remains inconclusive and warrants further investigation.

The problem is further complicated by the distinction between the existence of governance structures and their actual effectiveness. A company may comply formally with governance requirements while the underlying monitoring mechanisms remain ineffective. Consequently, the presence of independent directors, audit committees or other governance structures does not automatically translate into high-quality financial reporting. Evidence from Nigerian studies has similarly shown that some governance characteristics have significant effects on reporting outcomes while others have insignificant relationships. This inconsistency creates uncertainty about which corporate governance mechanisms are most effective in improving financial reporting quality within the Nigerian corporate environment.

Therefore, the central problem addressed by this study is the continuing concern about the quality of financial reporting among listed manufacturing companies in Nigeria, despite the existence of corporate governance regulations and mechanisms intended to promote transparency, accountability and effective oversight. The inconsistent empirical findings also suggest that the impact of corporate governance on financial reporting quality in Nigeria has not been conclusively established. This therefore means that, there is a need for further empirical investigation into whether and to what extent corporate governance mechanisms influence the quality of financial reporting of listed manufacturing companies in Nigeria. Addressing this problem is important for strengthening corporate accountability, improving investor confidence, enhancing the effectiveness of regulatory frameworks and contributing to the development of a more transparent and reliable Nigerian capital market.

Objectives of the Study

The main objective of this study is to examine the impact of corporate governance on financial reporting quality in Nigeria.

The specific objectives are as follows:

- i. To evaluate the effect of board independence on financial reporting quality of listed manufacturing companies in Nigeria;
- ii. To examine the effect of board size on financial reporting quality of listed manufacturing companies in Nigeria;
- iii. To examine the role of audit committees on financial reporting quality of listed manufacturing companies in Nigeria;
- iv. To assess the influence of ownership structure on financial reporting quality of listed manufacturing companies in Nigeria; and

Research Hypothesis

Based on the objectives and research questions of the study, the following null hypotheses are formulated:

H₀₁: Board size has no significant effect on financial reporting quality of listed manufacturing companies in Nigeria.

H₀₂: Board independence has no significant effect on financial reporting quality of listed manufacturing companies in Nigeria.

H₀₃: Audit committee size has no significant effect on financial reporting quality of listed manufacturing companies in Nigeria.

H₀₄: Ownership Structure has no significant effect on financial reporting quality of listed manufacturing companies in Nigeria

Literature Review

Corporate Governance

Corporate governance refers to the framework through which organizations are directed and controlled to achieve accountability and transparency (Cadbury, 1992). It involves relationships among management, board members, shareholders, and other stakeholders.

According to Shleifer and Vishny (1997), corporate governance deals with how suppliers of finance to corporations ensure they receive returns on their investments. Effective governance mechanisms reduce agency conflicts between managers and shareholders. It encompasses the structures, policies and processes established to ensure that managers act responsibly, and that the interests of shareholders and other stakeholders are adequately protected. Corporate governance is particularly important in companies where ownership and management are separated because managers may possess incentives to pursue objectives that differ from those of shareholders.

The importance of corporate governance is closely connected to the need for accountability and transparency in corporate activities. Effective governance provides means through which management decisions can be monitored and evaluated. It also establishes appropriate responsibilities for boards of directors, management, shareholders, auditors and other stakeholders. The Organisation for Economic Co-operation and Development (OECD, 2023) explains that effective corporate governance contributes to market confidence, economic efficiency, sustainable investment and corporate accountability.

In Nigeria for example, corporate governance has received considerable regulatory attention because of concerns about corporate failures, weak internal controls, inadequate disclosure and managerial opportunism. The **Nigerian Code of Corporate Governance 2018 (NCCG 2018)** was developed to institutionalise good corporate governance practices and strengthen accountability and transparency in Nigerian companies. The Financial Reporting Council of Nigeria identifies corporate governance as an important driver of corporate accountability and business prosperity.

Financial Reporting Quality

Financial reporting quality refers to the accuracy, reliability, and relevance of financial information disclosed by firms (Dechow, Ge, & Schrand, 2010). It is the extent to which financial reports faithfully communicate useful information about the economic activities and financial position of an organisation. High-quality financial reporting faithfully represents a company's financial performance and position. It also provides information that enables investors, creditors and other users to make informed economic decisions.

Accordingly, the International Financial Reporting Standards (IFRS) Foundation (2018), posit that useful financial information should possess the fundamental qualitative characteristics of **relevance and faithful representation**, and its usefulness is further enhanced by comparability, verifiability, timeliness and understandability.

Furthermore, financial reporting quality is therefore not limited to the mere preparation and publication of financial statements only, it concerns whether the information presented are accurate, and reflects the underlying economic reality of the reporting entity, because studies have shown that poor quality reporting usually arise from earnings manipulation, inadequate disclosure, accounting errors, delayed reporting or deliberate misrepresentation of financial performance.

Different measures of financial reporting quality have been employed to get accurate reporting, that reflects economic reality, they include the discretionary accruals, accrual quality, earnings management, accounting conservatism, value relevance and reporting timeliness. In corporate governance studies, discretionary accruals are frequently used as an accounting-based indicator, because abnormal accruals may indicate managerial discretion in reported earnings. For example, Wali (2016) measured financial reporting quality through earnings management using an accrual-based approach in his study of listed manufacturing firms in Nigeria. Poor financial reporting quality is often associated with earnings manipulation and fraudulent reporting.

Board Size

Board size refers to the number of directors serving on the board of a company. The size of the board can influence the effectiveness of corporate monitoring and consequently affect financial reporting quality.

From an agency perspective, a larger board will provide greater diversity of experience, knowledge and expertise, it is believed that directors will with different knowledge and expertise, and based on these their wealth of experiences, they will contribute different perspectives to the monitoring of management and the review of financial information. A larger board may therefore improve the board's capacity to detect inappropriate accounting practices and strengthen the credibility of financial reports. However, an excessively large board may create coordination and communication difficulties. When the number of directors becomes too large, decision making may become slower and individual directors may have less opportunity to participate meaningfully in discussions. Empirical evidence from Nigeria is mixed.

Ekwueme and Aniefor found a significant positive relationship between board size and financial reporting quality among quoted manufacturing companies, using an accounting-based measure of financial reporting quality. Conversely, Olufemi (2025), in a study of listed Nigerian manufacturing firms covering 2015–2022, reported that board size had a significant negative effect on financial reporting quality. These divergent findings suggest that the effect of board size may depend on the characteristics of the firms and the effectiveness of individual directors rather than simply the number of board members.

Board Independence

Board independence is another very important governance mechanism, it refers to the extent to which a company's board contains directors, who are sufficiently independent from management and capable of exercising objective judgement, because it is believed that independent directors are expected to provide effective oversight, because they are less likely to be influenced by management interests. The presence of independent directors is particularly relevant to financial reporting, because management is generally responsible for preparing financial statements while shareholders depend on the board to monitor the reporting process. Independent directors can question management decisions, scrutinise accounting policies and encourage compliance with financial reporting requirements.

Accordingly, agency theory provides a strong explanation for the expected relationship between board independence and financial reporting quality, where it is expected that independent directors can reduce agency conflicts by monitoring managers and discouraging opportunistic behaviour (Jensen & Meckling, 1976). Greater board independence may therefore reduce the likelihood of earnings manipulation and improve the reliability of financial information.

However, the existence of independent directors does not necessarily guarantee effective monitoring, because their effectiveness may depend on their expertise, access to information, independence in practice and commitment to their oversight responsibilities.

Finally, Nigerian empirical evidence is inconclusive. Accordingly, Nnamdi and Okoye (2020) examined listed manufacturing companies, and included board independence among the determinants of financial reporting quality. More recently, Olufemi (2025) found that board independence did not have a significant effect on financial reporting quality among listed Nigerian manufacturing firms. These inconsistencies in all the various studies justifies further investigation of board independence in the Nigerian manufacturing sector.

Audit Committee

An audit committee is a committee established by the board to provide oversight of the financial reporting process, internal control systems, audit functions and compliance with relevant financial

reporting requirements. The audit committee is an important component of corporate governance because it provides an additional layer of monitoring between management, the board and external auditors.

An effective audit committee is expected to improve the credibility of financial statements by reviewing accounting policies, examining financial reports and communicating with internal and external auditors. The committee may also contribute to the identification of weaknesses in internal controls and reduce opportunities for managerial manipulation of accounting information. The effectiveness of an audit committee may depend on several characteristics, including its size, independence, financial expertise, frequency of meetings and diligence.

Accordingly, Wali (2016) specifically examined audit committee characteristics and financial reporting quality among listed manufacturing firms in Nigeria. In the study, earnings management was used as an indicator for financial reporting quality and demonstrated the importance of audit committee characteristics in the financial reporting process. More so, recent research has also examined audit committee characteristics as part of a broader corporate governance mechanisms affecting financial reporting quality. For example, Ihongu et al. (2025), examined audit committee financial expertise and audit committee meetings alongside other governance variables among listed consumer goods companies in Nigeria.

The evidence from the various studies suggests that the audit committee may play an important role in enhancing financial reporting quality, but its effectiveness may vary according to the competence and independence of its members.

Ownership Structure

Ownership structure means the manner in which shares of a company are distributed among different categories of shareholders. Ownership may be concentrated among a few shareholders or dispersed among numerous investors, it may also consist of different categories such as institutional, managerial, foreign, family and individual ownership.

Ownership structure can influence financial reporting quality because shareholders have different incentives and capacities to monitor management. Institutional shareholders, for example, may possess considerable financial resources and expertise that enable them to monitor management effectively, and their involvement in the ownership structure of the organisation may discourage opportunistic managerial behaviour and encourage more transparent reporting. However, concentrated ownership may produce both positive and negative effects, in the sense that large shareholders may have stronger incentives to monitor managers and protect their investments, while controlling shareholders on the other hand, may possess the ability to influence corporate decisions in ways that puts minority shareholders at a disadvantage position.

Accordingly, Ekwueme and Aniefor reported a significant positive relationship between ownership structure and financial reporting quality among quoted manufacturing firms in Nigeria. Research on ownership concentration among Nigerian manufacturing firms has similarly found evidence of significant relationships between ownership characteristics and aspects of financial reporting. These findings indicate that ownership structure remains an important governance mechanism deserving further examination.

Theoretical Framework

Agency Theory

Agency theory explains the relationship between principals (shareholders) and agents (managers). Managers may act in their own interests, leading to conflicts, corporate governance mechanisms help reduce these conflicts and improve financial reporting transparency. Accordingly, Agency theory was developed from the seminar work of Jensen and Meckling (1976). The theory explains that, in a

corporation, shareholders are referred to as principals, while managers are referred to as agents whom are entrusted by the principals with the responsibility of managing corporate resources on their behalf. The separation of ownership from management creates the possibility of conflicts, because managers may pursue personal interests rather than shareholders' interests, and managers may also possess more information about the company's operations than shareholders, creating information imbalance.

Therefore, corporate governance mechanisms are consistently required to reduce agency problems, while board size, board independence, audit committees and ownership structures can provide mechanisms for monitoring management and reducing opportunistic behaviour.

In effect, agency theory is particularly relevant to this study because the four independent variables are governance mechanisms designed to monitor managers. Effective boards and audit committees can constrain managerial discretion, while appropriate ownership structures can increase shareholder monitoring. These mechanisms can consequently contribute to high-quality financial reporting.

Empirical Review

Several studies have examined the relationship between corporate governance and financial reporting quality. For instance, Dechow et al. (1996) found that weak governance structures are associated with higher levels of earnings manipulation. Similarly, Xie, Davidson, and DaDalt (2003) reported that active audit committees significantly reduce discretionary accruals. In Nigeria, Adeyemi and Fagbemi (2010) found that corporate governance mechanisms significantly influence the credibility of financial statements. However, challenges such as weak enforcement limit their effectiveness. Also, Wali (2016), investigated the relationship between audit committee characteristics and financial reporting quality among listed manufacturing firms in Nigeria, the study covered 2008–2014 and measured financial reporting quality using earnings management. The study demonstrated the relevance of audit committee characteristics to financial reporting quality.

Nnamdi and Okoye (2020) examined the determinants of financial reporting quality among quoted manufacturing firms in Nigeria, their study considered board size, board independence, institutional ownership and other firm characteristic, their findings showed significant relationships between some governance and firm characteristics and financial reporting quality.

Ekwueme and Aniefor examined financial reporting quality among quoted manufacturing firms in Nigeria using longitudinal secondary data, their findings indicated that board size and ownership structure were significantly associated with financial reporting quality.

Eshiet et al. (2023) examined corporate governance attributes and financial reporting quality among listed manufacturing firms in Nigeria, the study used secondary data from annual reports and applied panel regression techniques. Its findings provide further evidence that governance attributes are relevant to the quality and timeliness of corporate reporting.

Sunday and Sa'idu (2023) examined the impact of corporate governance on financial reporting quality among listed Nigerian industrial goods companies, their findings indicated that board size and audit committee independence had positive and significant effects on financial reporting quality, while board independence, board professional expertise, board gender and board shareholding were jointly insignificant.

Oladapo et al. examined board characteristics and financial reporting quality among selected listed manufacturing firms in Nigeria using panel data covering 2010–2021, the study considered board size and independence, among other board characteristics, and used discretionary accruals based on the Modified Jones Model as the measure of financial reporting quality. Olufemi (2025) examined corporate governance mechanisms and financial reporting quality among listed Nigerian manufacturing firms from 2015–2022. Using data from 49 manufacturing firms and discretionary accruals as a measure of financial

reporting quality, the study found that board size had a significant negative effect, whereas board independence had an insignificant effect.

Methodology

The study adopted **ex-post facto research design**. The study comprises **all 46 manufacturing companies listed on the Nigerian Exchange (NGX) as at December, 2025**, while 25 were selected as sample size using purposeful sampling techniques for the period of ten years (2026-2025). Both descriptive and inferential statistic (panel regression) were used for the analyses of data collected. analysis was adopted

Model Specification

The relationship between corporate governance and financial reporting quality can be expressed as:

$$FRQ = \beta_0 + \beta_1 BS + \beta_2 BI + \beta_3 AC + \beta_4 OS + \varepsilon$$

$$FRQ = f(BS, BI, AC, OS)$$

The econometric model is specified as:

$$FRQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 AC_{it} + \beta_4 OS_{it} + \varepsilon_{it}$$

Where:

FRQ_{it} = Financial Reporting Quality of firm i in year t

BS_{it} = Board Size

BI_{it} = Board Independence

AC_{it} = Audit Committee

OS_{it} = Ownership Structure

β_0 = Constant/intercept

$\beta_1 - \beta_4$ = Regression Coefficients

ε_{it} = Error term

Variable Measurement

Variable	Abbreviation	Measurement	
Financial Reporting Quality	FRQ	Modified Jones Model	
Board Size	BS	Total number of Director	
Board Independence	BI	Percentage of independent directors/ Total number of Directors	
Audit Committee	AC	Total Number of Audit Committee	
Ownership Structure	OS	Percentages of ordinary shares held by foreigner/ total number of ordinary shares	

Data Analysis

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
frq	250	.07772	.0629528	0	.26
bs	250	9.552	2.684048	5	17
bi	250	26.15152	21.32327	0	100
ac	250	5.372	1.112911	0	8
os	250	34.93692	30.9236	0	97.43

Table 1 shows the descriptive statistics. The dependent variable, financial reporting quality (FRQ), has a mean of 0.0777 and a standard deviation of 0.0630, with a minimum value of 0.00 and a maximum

value of 0.26. This indicates that the level of absolute financial reporting quality varies across the observations, Board size (BS) has a mean of 9.552 members and a standard deviation of 2.684. The minimum board size is 5 members, while the maximum is 17 members. This indicates that the sampled companies generally have boards comprising approximately 10 members, although there is some variation in board size across firms. Board independence (BI) has a mean of 26.15% and a standard deviation of 21.32%, with values ranging from 0% to 100%. The relatively large standard deviation compared with the mean indicates considerable variation in the proportion of independent directors among the sampled firms. Audit committee (AC) has a mean of 5.372 members, with a standard deviation of 1.113. The minimum value is 0, while the maximum is 8. This suggests that the size of the audit committee varies among the sampled companies, with an average of approximately five members.

Finally, ownership structure (OS) has a mean of 34.94% and a standard deviation of 30.92%. The minimum value is 0%, while the maximum is 97.43%. The relatively high standard deviation indicates substantial variation in ownership structure across the sampled firms.

Table 2: Shapiro-Wilk Normality Test

Variable	Obs	W	V	z	Prob>z
frq	250	0.93796	11.252	5.632	0.00000
bs	250	0.96639	6.096	4.206	0.00001
bi	250	0.89286	19.431	6.903	0.00000
ac	250	0.82458	31.814	8.050	0.00000
os	250	0.91816	14.842	6.276	0.00000

Table 2 reveals the Shapiro-Wilk test that was conducted to determine whether the variables are normally distributed. The results show that all the variables have statistically significant Shapiro-Wilk tests at the 5% level. For FRQ, the Shapiro-Wilk statistic is 0.93796, with a p-value of 0.00000. Since the p-value is less than 0.05, the null hypothesis that FRQ is normally distributed is rejected. This indicates that FRQ is not normally distributed. For BS, the Shapiro-Wilk statistic is 0.96639, with a p-value of 0.00001. The p-value is below 0.05, indicating that board size significantly departs from a normal distribution. For BI, the Shapiro-Wilk statistic is 0.89286, with a p-value of 0.00000. The null hypothesis of normality is therefore rejected, indicating that board independence is not normally distributed. For AC, the Shapiro-Wilk statistic is 0.82458, with a p-value of 0.00000. This provides evidence that audit committee size is not normally distributed. Similarly, OS has a Shapiro-Wilk statistic of 0.91816 and a p-value of 0.00000. Thus, the null hypothesis of normality is rejected, indicating that ownership structure is not normally distributed.

Table 3: Spearman Correlation Matrix

	frq	bs	bi	ac	os
frq	1.0000				
bs	0.1367	1.0000			
bi	-0.0363	0.1624	1.0000		
ac	-0.0638	0.1264	0.0303	1.0000	
os	0.0620	0.0907	0.3027	0.0339	1.0000

Table 3 shows the Spearman correlation matrix presents the direction and strength of the associations between financial reporting quality and the explanatory variables, as well as the relationships among the explanatory variables. The correlation between FRQ and BS is 0.1367, indicating a weak positive relationship between board size and financial reporting quality. This suggests that larger boards are associated with slightly higher levels of FRQ, although the correlation is weak.

The correlation between FRQ and BI is -0.0363, indicating a very weak negative relationship between board independence and absolute financial reporting quality. The magnitude of the coefficient suggests that the association is negligible. The correlation between FRQ and AC is -0.0638, indicating a very weak negative relationship between audit committee size and absolute financial reporting quality. The correlation between FRQ and OS is 0.0620, indicating a very weak positive relationship between ownership structure and absolute financial reporting quality.

Table 4.4 Panel Regression (Panel Corrected Standard Error)

Variable	Coff.	z-stat	Prob.
BZ	0.002	2.05	0.040
BI	-0.000	-0.66	0.507
AC	-0.005	-1.77	0.077
OS	0.000	2.21	0.027
R ²			0.030
Wald Test			
Chi2			12.65
Prob.			0.013
Random Test: Breusch and Pagan Lagrangian multiplier test			
Chi2			0.15
Prob.			0.347
Heteroskedascity test: Breusch-Pagan / Cook-Weisberg test:			
Chi2			2.07
Prob.			0.015
Autocorrelation Test: Wooldridge test			
F stat.			0.114
Prob.			0.73
Cross-Sectional dependence: Pesaran Test			
Prob.			0.514

Table 4 shows the panel regression result and other post and pre-estimation test that was used for the study. The Variance Inflation Factor (VIF) test was conducted to assess the presence of multicollinearity among the independent variables. The result shows a mean VIF of 1.10. This value is substantially below the commonly used threshold of 10, and it also falls below the more conservative threshold of 5. The result therefore indicates that there is no evidence of serious multicollinearity among board size (BS), board independence (BI), audit committee (AC), and ownership structure (OS). This suggests that the explanatory variables do not exhibit excessive linear association that could substantially distort the estimated regression coefficients or inflate their standard errors. The Breusch-Pagan Lagrangian Multiplier (LM) test was employed to determine whether there are significant firm-specific random effects in the panel data, relative to a pooled OLS model. The result produces a χ^2 value of 0.15 with a probability value of 0.3473. The null hypothesis of the test states that the variance of the panel-specific random effect is zero, that is, $\text{Var}(u) = 0$. Since the probability value of 0.3473 is greater than 0.05, the null hypothesis is not rejected. This indicates that there is no statistically significant panel-level random effect in the model. The implication is that the differences across firms captured by the random-effects component are not statistically significant. Therefore, the result provides support for the use of pooled OLS rather than the random-effects model for this specification.

The Pesaran test was conducted to determine whether the residuals of the panel model are correlated across the sampled firms. The result shows a Pesaran test statistic of -0.652, with a probability value of 0.5143. The null hypothesis of the Pesaran test is that there is cross-sectional independence among the panels. Since the probability value of 0.5143 is greater than 0.05, the null hypothesis cannot be rejected. This indicates that there is no statistically significant cross-sectional dependence among the sampled firms. The Wooldridge test was conducted to determine whether the regression disturbances exhibit first-order serial correlation within firms over time. The result reports an F-statistic of 0.114 with a probability value of 0.7390. The null hypothesis states that there is no first-order autocorrelation in the panel data. Since the probability value of 0.7390 is considerably greater than 0.05, the null hypothesis is not rejected. This indicates that there is no statistically significant first-order serial correlation in the panel data.

The Breusch-Pagan/Cook-Weisberg test was conducted to determine whether the variance of the regression disturbances is constant. The result produces a chi-square statistic of 2.07 with a probability value of 0.0150. The null hypothesis states that the error term has constant variance (homoskedasticity). Since the probability value of 0.0150 is less than 0.05, the null hypothesis is rejected. This indicates the presence of statistically significant heteroskedasticity in the regression model. In other words, the variance of the error term is not constant across the observations. This finding means that conventional pooled OLS standard errors may be inefficient or unreliable for statistical inference. Hence, Panel corrected standard error (PCSE) will be adopted.

The PCSE regression was estimated to account for the heteroskedasticity identified by the Breusch-Pagan/Cook-Weisberg test. The model reports an R-squared of 0.0306, indicating that board size, board independence, audit committee, and ownership structure jointly explain approximately 3.06% of the variation in financial reporting quality. The Wald chi-square statistic is 12.65, with a probability value of 0.0131. Since the probability value is below 0.05, the model is statistically significant overall at the 5% level. This indicates that the explanatory variables jointly have a statistically significant relationship with financial reporting quality. Board size has a coefficient of 0.002, z-statistic of 2.05, and a probability value of 0.040. The positive coefficient indicates that an increase in board size is associated with an increase in financial reporting quality. Specifically, a one-unit increase in board size is associated with an estimated 0.002-unit increase in FRQ, holding the other variables constant. Since the p-value of 0.040 is less than 0.05, the relationship is statistically significant at the 5% level. Therefore, board size has a positive and statistically significant relationship with absolute financial reporting quality.

Board independence has a coefficient of -0.000, a z-statistic of -0.66, and a probability value of 0.507. The negative coefficient suggests that higher board independence is associated with a slight decrease in absolute financial reporting quality, holding other factors constant. However, the probability value of 0.507 is greater than 0.05. Therefore, the relationship between board independence and financial reporting quality is not statistically significant. This means that the study does not provide sufficient statistical evidence to conclude that board independence significantly influences financial reporting quality.

Audit committee has a coefficient of -0.005 a z-statistic of -1.77, and a probability value of 0.077. The negative coefficient indicates that an increase in audit committee size is associated with a decrease in financial reporting quality, holding the other explanatory variables constant. However, the p-value of 0.077 is greater than 0.05, meaning that the relationship is not statistically significant at the 5% level. It is, however, statistically significant at the 10% level. Therefore, the result provides weak evidence of a negative relationship between audit committee size and absolute financial reporting quality at the 10% significance level. Ownership structure has a coefficient of 0.000, a z-statistic of 2.21, and a probability

value of 0.027. The positive coefficient indicates that an increase in ownership structure is associated with an increase in financial reporting quality, holding the other explanatory variables constant. Since the p-value of 0.027 is less than 0.05, the relationship is statistically significant at the 5% level. Thus, ownership structure has a positive and statistically significant relationship with financial reporting quality.

Test of Hypotheses

The hypotheses of the study were tested using the panel-corrected standard error (PCSE) regression technique. The decision rule is to reject the null hypothesis where the probability value (p-value) is less than the 5% level of significance ($\alpha = 0.05$). Where the p-value is greater than 0.05, the null hypothesis is not rejected. Based on the PCSE regression results presented above, the hypotheses can be tested as follows:

H₀₁: Board size has no significant influence on financial reporting quality of listed companies in Nigeria.

The PCSE regression result shows that board size has a positive coefficient of 0.002 and a p-value of 0.040. Since the p-value of 0.040 is less than the 0.05 significance level, the null hypothesis is rejected. Therefore, the study concludes that board size has a positive and statistically significant influence on financial reporting quality of listed companies in Nigeria. This implies that an increase in board size is associated with an increase in financial reporting quality, *ceteris paribus*.

H₀₂: Board independence has no significant influence on financial reporting quality of listed companies in Nigeria.

The PCSE result indicates that board independence has a negative coefficient of -0.000182 and a p-value of 0.507. Since the p-value of 0.507 is greater than the 0.05 significance level, the null hypothesis is not rejected. Therefore, the study concludes that board independence has no statistically significant influence on financial reporting quality of listed companies in Nigeria.

H₀₃: Audit committee size has no significant influence on financial reporting quality of listed companies in Nigeria.

The result shows that audit committee size has a negative coefficient of -0.005 and a p-value of 0.077. Since the p-value of 0.077 is greater than the 0.05 significance level, the null hypothesis is not rejected at the 5% level. Hence, the study concludes that audit committee size has no statistically significant influence on financial reporting quality of listed companies in Nigeria at the 5% level. However, the relationship is statistically significant at the 10% level, indicating weak evidence of a negative influence at that level.

H₀₄: Ownership structure has no significant influence on financial reporting quality of listed companies in Nigeria.

The PCSE result indicates that ownership structure has a positive coefficient of 0.0002 and a p-value of 0.027. Since the p-value of 0.027 is less than 0.05, the null hypothesis is rejected. The study therefore concludes that ownership structure has a positive and statistically significant influence on financial reporting quality of listed companies in Nigeria. This means that an increase in ownership structure is associated with an increase in financial reporting quality, holding other variables constant.

Discussion of Findings

The study examined the influence of board size, board independence, audit committee size and ownership structure on financial reporting quality of listed manufacturing companies in Nigeria. The findings produced mixed results.

Board size had a positive and statistically significant influence on financial reporting quality ($\beta = 0.0025$; $p = 0.040$). This suggests that board size is an important governance mechanism in explaining variations in the financial reporting measure. The finding is consistent with Ideh et al. (2021) and

Obeitoh et al. (2023), who reported that board characteristics influence earnings-management behaviour among Nigerian firms. However, it contrasts with Gbadebo (2024) and Ihongu et al. (2025), who found that larger boards were associated with lower earnings management. The difference may be attributable to differences in measurement, sample composition, study period and estimation techniques.

Board independence had a negative but statistically insignificant influence on financial reporting quality ($\beta = -0.0002$; $p = 0.507$). This indicates that the proportion of independent directors does not significantly explain variations in the financial reporting measure in the sampled firms. The finding is consistent with Gbadebo (2024), who also reported an insignificant relationship between board independence and earnings management. However, it contrasts with Obeitoh et al. (2023) and Ihongu et al. (2025), who found evidence that board independence could constrain earnings management. It also differs from the international evidence of Lin and Hwang (2010), who found that board independence generally reduces earnings management. The result may suggest that formal board independence does not necessarily translate into effective monitoring in the Nigerian corporate environment.

Audit committee size had a negative but statistically insignificant influence at the 5% level ($\beta = -0.0059$; $p = 0.077$). Although the result is not significant at 5%, it is significant at the 10% level, providing weak evidence of a negative relationship. This finding is broadly consistent with Lin and Hwang (2010), who found that audit committee characteristics can constrain earnings management, and with Lin et al. (2016), whose meta-analysis reported that audit committee characteristics were generally associated with lower earnings management. The finding also has some support from Ihongu et al. (2025) and Obeitoh et al. (2023). The relatively weak significance in the present study may indicate that audit committee size alone is less important than characteristics such as financial expertise, independence and meeting frequency.

Ownership structure had a positive and statistically significant influence on absolute financial reporting quality ($\beta = 0.0002$; $p = 0.027$). This establishes ownership structure as a significant determinant of the financial reporting measure among the sampled firms. The finding is consistent with the broader evidence of García-Meca and Sánchez-Ballesta (2009) that ownership characteristics are relevant to earnings-management behaviour. However, Nigerian studies have reported mixed directions. Farouk and Bashir (2017) found significant negative effects for some ownership categories, while Ekpulu and Omoye (2018) reported mixed results across different ownership types. Similarly, Ali-Momoh and Ahmed (2022) and Yahaya et al. (2025) reported different effects depending on the type of ownership examined. These differences suggest that the effect of ownership structure depends on the particular ownership measure, institutional setting and method used to measure financial reporting quality.

Summary

This study examined the influence of board size, board independence, audit committee size and ownership structure on financial reporting quality of listed manufacturing companies in Nigeria using for the period of 10 years (2016–2025). The analysis employed panel-corrected standard errors (PCSE) after diagnostic tests revealed heteroskedasticity.

The findings showed that board size has a positive and significant influence on financial reporting quality ($\beta = 0.0025$; $p = 0.040$). This finding is consistent with Ideh et al. (2021) and Obeitoh et al. (2023) but differs from Gbadebo (2024) and Ihongu et al. (2025), who reported negative relationships. Board independence had a negative but insignificant influence ($\beta = -0.0002$; $p = 0.507$). This agrees with Gbadebo (2024) and Eleng et al. (2022) but contrasts with Obeitoh et al. (2023) and Ihongu et al. (2025), who found significant effects.

Audit committee size had a negative but insignificant influence at the 5% level ($\beta = -0.0059$; $p = 0.077$), although the relationship was significant at 10%. This broadly agrees with Lin and Hwang (2010)

and Eleng et al. (2022), while differing from studies that reported significant effects of audit committee characteristics. Finally, ownership structure had a positive and significant influence ($\beta = 0.0002$; $p = 0.027$). This supports the relevance of ownership characteristics reported by García-Meca and Sánchez-Ballesta (2009) and Irom et al. (2023), although the direction differs from some Nigerian studies such as Farouk and Bashir (2017) and Eleng et al. (2022). Overall, the findings demonstrate that corporate governance mechanisms have mixed effects on financial reporting outcomes. Board size and ownership structure were significant, whereas board independence and audit committee size was insignificant and was only weakly significant at the 10% level.

Conclusion

The study concludes that corporate governance mechanisms are relevant to financial reporting outcomes among Nigerian listed manufacturing companies, but their effects differ across individual mechanisms. Board size and ownership structure significantly influence the financial reporting measure, while board independence does not. Audit committee size shows only weak evidence of an effect. The findings suggest that improving financial reporting quality requires more than the formal establishment of governance structures. Greater attention should be given to the effectiveness, competence, independence and monitoring capacity of boards, audit committees and shareholders.

Recommendations

Based on the findings, the study recommends that:

1. Listed companies should ensure that board expansion is accompanied by relevant expertise, experience and effective participation, rather than focusing solely on board size.
2. Companies and regulators should strengthen the actual independence and competence of independent directors so that they can effectively monitor management.
3. Audit committees should emphasise financial expertise, independence and effectiveness, rather than merely increasing membership.

Shareholders, particularly significant and institutional shareholders, should strengthen their monitoring of management and financial reporting practices while protecting minority shareholder interests.

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