

AUDIT COMMITTEE AND EARNINGS QUALITY IN LISTED CONSTRUCTION AND REAL ESTATE COMPANIES IN NIGERIA.

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ABSTRACT

The study evaluated audit committee and earnings quality in listed construction and real estate companies in Nigeria. Specifically, the study attended to the seven objectives among others: to examine the relationship between size and discretionary accruals in listed construction and real estate companies in Nigeria. And examined the relationship between independence and discretionary accruals in listed construction and real estate companies in Nigeria. The study employed expo facto research and correlational design. The population of the study was the nine (9) listed construction and real estate companies in the Nigerian Stock Exchange. The sample size to be six (6) listed construction and real estate companies. The study emphatically employed the use of secondary data. The formulated research hypotheses were tested using multiple regression analysis with the aid of E-view (10). The find out among others that there is positive and significant relationship between size and discretionary accruals in listed construction and real estate companies in Nigeria. There is negative and insignificant relationship between independence and discretionary accruals in listed construction and real estate companies in Nigeria. The study recommend among others that construction and real estate companies in Nigeria audit committee members and discretionary accruals is positive and significantly related, to continuous enjoy this impact audit committee members into the foreseeable future, the shareholders should ensure strict compliance with the provisions of Companies and Allied Matters act (CAMA) of having six members of equal representation three shareholders and three directors. In our sampled companies, the study found few of them have only four audit committee members during a particular period of time. The regulators such as SEC should compel those Firms to strictly abide by these rules and regulations by providing a fine or penalty on any company that contravenes such law. Also recommend that emphatic considerations should be given to audit committee independence as a key factor for ensuring the credibility of financial reports in order for better accruals quality in listed construction and real estate companies in Nigeria.

INTRODUCTION

The concept of earnings quality, although lacking a single universally accepted definition, broadly refers to the extent to which reported earnings reflect a company's true economic and financial performance and can reliably predict future earnings (Mohammady, 2010; Kirschenheiter & Melumad, 2014; Wikipedia, 2020). High-quality earnings faithfully represent operational fundamentals, are free from accounting distortions, and are closely aligned with sustainable cash flows (Bouaziz, 2012). However, managerial discretion, judgment, and opportunistic accounting practices such as premature revenue recognition, expense deferral, or liberal accounting policy choices can degrade earnings quality (Bansal & Sharma, 2016; Liceran-Gutierrez & Cano-Rodriguez, 2016). Measurement approaches vary, encompassing persistence, predictability, accrual quality, and benchmark-beating tendencies (Dichev, Graham & Rajgopal, 2012). Corporate failures like Enron, WorldCom, Cadbury Plc, and Afribank Nigeria Plc demonstrate how weak governance and manipulated reporting erode investor trust, trigger litigations, and destroy value. In the wake of global and Nigerian financial scandals, concerns have intensified over the reliability of reported earnings, the independence and expertise of auditors, and the structural effectiveness of board audit committees (Butar, 2018; Peace, 2015).

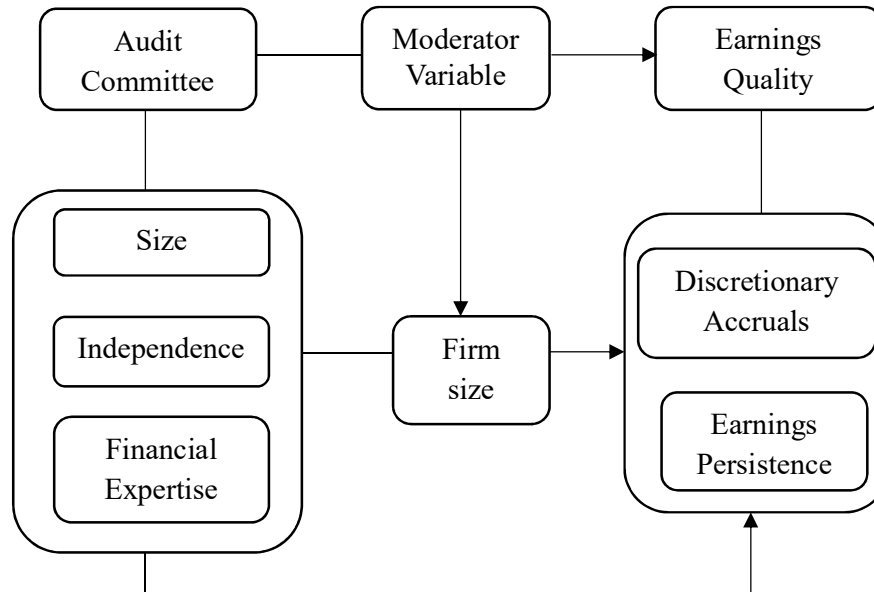
Audit committees, acting as representatives of the board of directors, are mandated to oversee financial reporting, disclosure practices, internal and external audits, internal controls, regulatory compliance with ethical and internal standards, and risk management across departments (Al-Baidhani, 2014). Their duties, reinforced by regulatory frameworks such as the Sarbanes-Oxley Act 2002, and Nigeria's Companies and Allied Matters Act (CAMA) 1990, include reviewing periodic reports, safeguarding auditor independence, monitoring internal controls, recommending and liaising with external auditors, and ensuring transparency in disclosures (Bhagat & Black, 2002; BRC, 1999). Through these functions, they aim to reduce fraudulent reporting, preserve shareholder value, and maintain the integrity of financial information, though their effectiveness can be undermined by issues of independence, size, tenure, and remuneration (Emmanuel et al., 2014). Emmanuel et al., (2014); Abdullahi, M. (2016), in Nigeria, audit committees comprising equal shareholder and non-executive director representation are statutorily tasked under CAMA with mediating between auditors, management, and the board to minimize information asymmetry, uphold accountability, fairness, responsibility, and transparency, and thus strengthen earnings quality. Nonetheless, their effectiveness may be compromised by structural factors such as size, tenure, independence, and remuneration and information asymmetry making the study of their impact particularly in sensitive sectors like listed construction and real estate companies both relevant and necessary.

Statement of Problem

Empirical evidence globally and in Nigeria reveals that poor corporate governance, particularly weak audit committee performance, has contributed to numerous corporate failures, mergers, and acquisitions (Rezart Dibra, 2016; Emmanuel, Ayorinde & Babajide, 2014; Mohammady, 2010). In Nigeria, audit committees often lack the capacity to function effectively due to the absence of statutory qualification requirements for shareholder representatives may be unqualified to interpret financial statements; there is no statutory minimum committee size; remuneration practices can compromise integrity; and prolonged tenure may foster white-collar fraud. Such deficiencies undermine the committee's ability to safeguard corporate governance, with significant implications for earnings quality and investor confidence.

A review of local and international literature (Abbott, 2004; Bouaziz, 2012; Zaman, 2011; Dichev, Graham & Rajgopal, 2012; Peace, 2015) shows that while corporate governance and earnings quality are extensively studied, few works directly address audit committee characteristics in relation to earnings quality, especially in the Nigerian context. Existing studies such as John (1996), Baxter & Cotter (2009), Sae-Lima & Jermsittiparsert (2019), and Chukwu, Idamoyibo & Monday (2020) focus either on foreign settings or on earnings persistence, limiting their applicability to Nigeria. This study addresses that gap by examining audit committee impact on earnings quality in listed Nigerian construction and real estate companies, using ten years of financial statement data, thereby offering sector-specific insights absent from earlier literature.

Conceptual Framework Model



Aims and objectives of the Study

The main aim and objective of this study is to investigate audit committee and earnings quality in listed construction and real estate companies in Nigeria. Specifically, the study attended to the following objectives:

1. To investigate the relationship between size and discretionary accruals in listed construction and real estate companies in Nigeria.
2. To investigate the relationship between independence and discretionary accruals in listed construction and real estate companies in Nigeria.
3. To investigate the relationship between financial expertise and discretionary accruals in listed construction and real estate companies in Nigeria.
4. To investigate the relationship between size and earnings persistence in listed construction and real estate companies in Nigeria.
5. To investigate the relationship between independence and earnings persistence in listed construction and real estate companies in Nigeria.
6. To investigate the relationship between financial expertise and earnings persistence in listed construction and real estate companies in Nigeria.
7. To investigate the firm size influence in the relationship between audit committee and earnings quality in listed construction and real estate companies in Nigeria.

Research Hypotheses

In line with the specific objectives, the following research questions were raised for the study.

- Ho₁: There is no significant relationship between size and discretionary accruals in listed construction and real estate companies in Nigeria.
- Ho₂: There is no significant relationship between independence and discretionary accruals in listed construction and real estate companies in Nigeria.
- Ho₃: There is no significant relationship between financial expertise and discretionary accruals in listed construction and real estate companies in Nigeria.
- Ho₄: There is no significant the relationship between size and earnings persistence in listed construction and real estate companies in Nigeria.
- Ho₅: There is no significant the relationship between independence and earnings persistence in listed construction and real estate companies in Nigeria.

Ho₆: There is no significant the relationship between financial expertise and earnings persistence in listed construction and real estate companies in Nigeria.

Ho₇: There is no significant influence of firm size in the relationship between audit committee characteristics and earnings quality in listed construction and real estate companies in Nigeria.

Review of Related Literature

Conceptual Review

Audit Committee

The audit committee, first recognized by the NYSE in 1939 and strengthened through reforms such as the Sarbanes-Oxley Act of 2002, has become an essential pillar of corporate governance, ensuring accountability in financial reporting, auditing, and risk management (Spangler & Braiotta, 1990; Zaman, 2011). Audit committees, composed mainly of independent directors, reinforced by Securities and Exchange Commission (Nigeria) (SEC) and American Institute of Certified Public Accountants (AICPA) guidelines, are charged with ensuring accountability in financial reporting, internal and external audits, risk management, and compliance processes (AICPA, 1988; BRC, 1999). Their responsibilities extend to preventing fraudulent reporting, safeguarding shareholders' equity, and providing transparent communication with stakeholders. High-quality earnings, which accurately reflect operational performance and serve as reliable indicators of future performance, are critical to firm valuation and market stability (Bouaziz, 2012). Thus, the committee's effectiveness lies in strengthening internal controls, ensuring auditor independence, and providing assurance that financial disclosures are accurate, reliable, and free from manipulations that distort earnings quality.

Audit committees today serve as independent oversight bodies within governance structures, liaising with management, internal and external auditors, regulators, and shareholders to reinforce ethical practices and financial transparency (Ayorinde & Babajide, 2014). Their remit includes monitoring compliance with anti-fraud and anti-corruption frameworks, overseeing whistleblowing processes, and ensuring that policies are aligned with laws such as the U.S. Foreign Corrupt Practices Act (Gabriela, 2016). Effective audit committees assess management judgments in financial reporting, review corporate risk management strategies, and address the impact of non-GAAP metrics on financial integrity (Nuhu, Umaru & Salisu, 2017; Hassan, 2011). They play a pivotal role during mergers and acquisitions, ensuring disclosure controls and reporting standards are upheld post-integration. As highlighted by Al-Baidhani (2014), their composition, competence, independence, and expertise directly correlate with corporate governance quality. Through established oversight practices recommended by institutions such as COSO and the SEC, audit committees enhance investor protection and strengthen confidence in capital markets, thereby reinforcing accountability and the long-term sustainability of corporations.

Dimensions of Predictor Variable

a. Audit Committee Size

The size of an audit committee is significant as it influences oversight capacity and disclosure quality. Larger committees may provide broader resources, expertise, and knowledge, thereby enhancing the ability to detect and resolve issues in financial reporting (Mohammed-Nor, 2010; Lipton & Lorsch, 2011; Bouaziz, 2012). However, empirical evidence is mixed: some studies suggest size has no considerable effect (Abbott, Parker & Peters, 2004), others report negative associations with reporting quality (Lin, Li & Yang, 2006), while smaller committees are argued to act more efficiently (Jensen, 1993; Yermack, 1996). In Nigeria, the Companies and Allied Matters Act (2004) prescribes a maximum of six members with equal directors and shareholders, highlighting the importance of appropriate structuring. Scholars note that optimal membership, often between three to seven (Ghafran & O'Sullivan, 2013), balances independence with functionality. Thus, committee size remains a critical determinant of efficiency in corporate reporting and earnings quality.

b. Audit Committee Independence

Independence is a cornerstone of audit committee effectiveness, ensuring objectivity in challenging management's judgments and constraining earnings management (Weil, 2009; Bukit & Iskandar, 2009). Independent committees provide unbiased oversight of financial reporting, reduce agency conflicts, and improve information transparency between managers and shareholders (Lei, 2008). Empirical studies confirm a negative relationship between independence and earnings manipulation across diverse jurisdictions (Chtourou, Bedard & Courteau, 2001; Zahn & Tower, 2004; Saleh, Iskandar & Rama, 2005). Nigeria's Companies and Allied Matters Act mandates equal representation of shareholders and directors with a maximum of six members, reinforcing balanced oversight. Comparative evidence from New Zealand, Canada, and IFAC underscores the global consensus that independence, particularly through external appointments, enhances governance and reduces fraudulent practices. Hence, audit committee independence is vital for credible reporting and strengthening shareholder confidence.

c. Audit Committee Remuneration

Remuneration plays a dual role: it attracts qualified members while potentially threatening independence if excessive. In public and third-sector organisations, members may serve without pay, while in listed companies, remuneration reflects time, expertise, and responsibility, with chairs typically receiving higher compensation. Best practice dictates that compensation should acknowledge duties and liabilities without impairing objectivity. Non-executive remuneration policies must strike a balance between fair recognition and avoidance of influence from management. Excessive pay risks undermining independence and creating perceptions of bias, especially in relation to executive remuneration design. Thus, audit committee remuneration must align with governance principles by ensuring transparency, fairness, and independence in overseeing reporting and control functions.

d. Financial Expertise

Financial expertise is critical for audit committee effectiveness, with at least one member required to possess relevant competence in finance, accounting, or auditing (Weil, 2009). Members should understand accounting principles, evaluate management's choices, and ensure financial disclosures accurately reflect performance. Professional qualifications or CFO-level experience typically provide this competence. While not every member must be a financial expert, diversity of backgrounds can strengthen the committee by promoting probing questions often overlooked by technically skilled members. Collective expertise ensures the committee as a whole is capable of effective oversight, though reliance on one "financial expert" requires careful management of attendance. Regulatory frameworks emphasize expertise as a safeguard against earnings manipulation, enhancing reporting quality and investor confidence. Thus, financial acumen within audit committees is indispensable for transparency and accountability in corporate governance.

Earnings Quality

Earnings quality refers to the extent to which reported earnings accurately reflect a company's operational performance, predict future results, and provide reliable information for firm valuation. High-quality earnings capture the intrinsic value of a firm and are characterized by cash-based, recurring, and precisely measured figures rather than estimates prone to change (Jim & Abhay, 2009; Chan, 2006; Dechow, 2010). They are decision-useful for investors and other stakeholders in capital allocation, given their ability to signal future cash flows (Vincent, 2004; Srinidhi, 2011). High-quality earnings require disclosure based on principles, fair value, and transparency, reducing information asymmetry and misleading signals, thus positively influencing investor confidence in financial reporting.

The reliability and relevance of earnings are tied to strong accounting standards, with the adoption of IFRS in Nigeria aimed at enhancing credibility, comparability, and accountability. Such standards

reduce asymmetry by ensuring comprehensive disclosures on assets, liabilities, and equity. However, "lower" quality earnings are not always misapplications of policy; they often stem from subjective judgments and estimates necessitated by industry-specific uncertainties, such as loan-loss provisions in banking. Hence, transparent disclosure remains critical for users to distinguish between conservative or aggressive estimations and to assess the reliability of earnings reporting (Francis, 2005).

Measures of Earnings Quality

a. Discretionary Accruals

Discretionary accruals represent accounting adjustments made at management's discretion, often influenced by information asymmetry, agency costs, and potential manipulation (Choi, 2011; Hasnan, 2012). While accrual accounting can provide relevant information to investors, it may also introduce errors, bias, and estimation risks, making earnings less reliable (Sloan, 2016). Researchers note that accruals quality directly affects earnings quality, as higher-quality accruals reduce distortions in reported performance (Dechow & Dichev, 2002; Myers, 2003). The Dechow and Dichev (2002) model, linking accruals to past, current, and future cash flows, is widely used to measure earnings quality by capturing both intentional and unintentional estimation errors. However, its limitation lies in distinguishing manipulation from genuine estimation challenges (Schipper & Vincent, 2003). Strong internal controls and effective accounting policies improve accruals quality and enhance earnings reliability (Doyle, Ge & McVay, 2007).

b. Earnings Persistence

Earnings persistence measures the stability and sustainability of earnings over time, reflecting both managerial efficiency and the firm's capacity to generate recurring profits (SafayianRizi & Sadeghi, 2009). Persistent earnings signal higher earnings quality, as they provide a reliable basis for predicting future performance (Sloan, 1996). Research shows that unreliable accruals weaken persistence, leading to anomalies that obscure the distinction between cash and accrual components of earnings. Conversely, persistent earnings demonstrate a firm's effective use of resources and ability to maintain performance (Zach, 2005).

Schipper and Vincent define earnings persistence as the sustainability of earnings over time, commonly measured by regressing future earnings on current values. High persistence enhances the usefulness of earnings in firm valuation and decision-making (Dechow). For instance, if company Y exhibits more persistent earnings than company X, its reported figures provide a stronger predictive measure of future performance, reducing estimation errors. Thus, persistence remains a key attribute of earnings quality, ensuring financial statements reflect accurate, unbiased, and sustainable corporate performance.

Firm Size

Firm size reflects a company's growth in revenue, profit, employees, or facilities, often essential for survival in competitive industries (Pervan & Visic, 2012; Dogan, 2013). It is influenced by resources and workforce availability, with rapid growth sometimes outpacing community capacity (Shiner, 1996). Empirical studies use firm size as either a predictor or control variable, commonly measured as the natural logarithm of total assets (Driffield, Mahambare & Pal, 2005).

Research indicates firm size moderates the relationship between audit committee effectiveness and earnings quality. Larger firms face political and disclosure pressures, often delaying earnings (Nyoka, 2018). Studies report positive links between firm size and earnings management (Hashmi, Khalid & Nazir, 2016), while high-diversity large firms show stronger earnings quality (Kreder, 2016). Thus, firm size significantly shapes reporting practices and monitoring outcomes.

Audit Committee and Earnings Quality

Audit committees safeguard reporting integrity by reviewing financial statements and reducing managerial abuse (Jim & Abhay, 2009). Despite their presence, corporate scandals like Cadbury and Oceanic Bank raised doubts over reporting credibility in Nigeria. Mixed findings exist: some studies report positive relationships between committee features and earnings quality (Beasley & Salterio, 2001), others find negative (Yang & Krishnan, 2005) or insignificant associations (Nelson & Jamil, 2012).

Gaps remain in Nigeria-focused research. Prior studies often examined banking or conglomerate sectors (Fodio et al., 2013; Uadiale, 2012) with limited variables or outdated periods. Few included financial expertise, though it plays a critical role in constraining earnings management. Hence, investigating audit committee characteristics within Nigeria's food and beverage sector is vital, particularly under revised SEC codes.

Audit Committee Independence and Earnings Quality

Independence ensures unbiased oversight, constraining earnings manipulation and enhancing firm performance (Murya, 2010; Hassan, 2013). Post-SOX evidence shows markets respond positively to independent audit committees (Chang & Sun, 2009). Nigerian codes also mandate majority non-executive membership (SEC, 2011). However, empirical evidence remains mixed: some studies confirm positive links (Arslan, 2014), others find negative or no significant association (Fodio et al., 2013; Petra, 2007).

Continuous monitoring of independence is therefore essential. While independence enhances transparency and credibility, its effect on earnings quality is context-dependent, varying across governance frameworks and industry settings. Thus, its role in Nigeria warrants further exploration.

Audit Committee Financial Expertise and Earnings Quality

Financial expertise strengthens audit committee effectiveness, ensuring accurate monitoring of accounting processes and constraining earnings management (Krishnan & Visvanathan, 2008; Chtourou, 2001). Regulations, including CAMA Section 359, require at least one financially literate member. Empirical evidence supports that expertise lowers aggressive earnings management and improves investor confidence (Sharma & Kuang, 2013; Carcello et al., 2006).

Nonetheless, the type of expertise matters. Studies show accounting specialists are more effective than non-accounting experts (Dhaliwal, 2007; Defond et al., 2005). Some research even reports negative associations (Marra, 2011). Therefore, beyond mere compliance, audit committees require a balance of technical competence and independence to ensure reporting quality.

Audit Committee Remuneration and Earnings Quality

Remuneration affects the independence and performance of audit committees. Fair compensation enhances monitoring by encouraging commitment and accountability (Collier & Gregory, 1999). More frequent remuneration is associated with fewer financial problems (Menon & Williams, 1994). However, excessive pay risks bias, especially when CEOs influence remuneration decisions.

The remuneration committee's task is to align executive pay with performance through salary, bonuses, and incentives. If compromised, independence weakens, undermining governance. Thus, remuneration should balance recognition of responsibilities with objectivity, ensuring audit committees can protect shareholder interests and uphold earnings quality.

Reasons for Adopting Agency Theory

Agency theory, first articulated by Berle and Means (1932) and later formalized by Jensen and Meckling (1976), explains the conflict of interest between principals (owners) and agents (managers). It assumes both parties act in self-interest, creating partial goal conflicts and information asymmetry. Corporations are thus structured to minimize agency costs, aligning managerial decisions with shareholder interests. As Chowdhury (2004) notes, agency theory

describes the contractual relationship in which the principal delegates decision-making authority to the agent, highlighting inherent tensions in governance and accountability.

In the context of earnings quality, the theory demonstrates how managers may manipulate earnings to present misleading pictures of firm performance (Abdul Rauf, 2012). This makes agency theory highly relevant to the role of audit committees, which act as monitoring mechanisms to reduce agency costs and asymmetry. By representing shareholders equally with directors, audit committees review and confirm management's financial statements, ensuring compliance with accounting standards, ethical practices, and faithful reporting (Menon & Williams, 1994).

Empirical Studies

Fodio, Foluke and Victor (2014), examined the effect of audit committee characteristics on financial reporting quality in Nigerian deposit banks using multivariate regression. They found independence and expertise positively impacted reporting quality, while committee size showed no significant effect. However, aggregate committee characteristics had a significant influence. Recommendations emphasized strengthening expertise and independence to ensure credibility in financial reports. Similarly, Ibrahim, Alkasim, Udo, and Onipe (2019) assessed audit committees of 13 banks (2008–2017) and found expertise and busyness negatively and significantly impacted earnings management, while tenure, meetings, and share ownership had insignificant effects. They concluded that financial expertise and directors' experience enhance reporting quality.

ThankGod and Onukogu (2018), studied food and beverage firms (2006–2016) using modified Jones' model. Results revealed expertise negatively impacted earnings management, while committee size and meeting frequency were statistically insignificant. Larger firms, however, showed a greater tendency to manage earnings. Hussaini (2014) similarly found size and expertise inversely related to earnings management but independence and frequency of meetings positively linked. These studies recommend compliance with SEC and CAMA codes, greater expertise, and regulated meeting frequency to strengthen monitoring roles.

Mohammed, Joshua, Adabenege, and Aniette (2017), examined consumer-goods companies (2006–2016) and concluded audit committee expertise and meetings had positive but insignificant effects on audit quality. Temple (2016), analyzing Nigerian banks, also found audit committee meeting frequency statistically insignificant in improving reporting quality, though frequent reviews were recommended to curb earnings manipulation. Olayinka (2019) explored audit committees in eight banks (2011–2015), concluding that size, meetings, and financial literacy had no significant effect on performance, though diverse backgrounds and minimum literacy levels were encouraged.

Ibrahim, Alkasim, Udo, and Onipe (2019), this study examined audit committees and earnings management in Nigerian banks (2008–2017) using the discretionary loan loss provision model (Chang et al., 2008) and Random Effects regression. Findings showed financial expertise and busyness had significant negative effects on earnings management, while tenure was negative but insignificant. Meetings and share ownership were positive yet insignificant. The authors concluded that expertise and experience improve reporting quality and recommended appointing financially skilled members and including directors with multiple roles for broader oversight.

Finally, Osariemen, Edosa, Uwalomwa, and Olubukola (2016) tested SEC code requirements across 150 firm-year observations. Their findings indicated that size, expertise, meeting frequency, and overall effectiveness were positively related to audit quality, with size and effectiveness showing significant effects. They recommended full compliance with the six-member requirement and sanctions for non-compliance, underscoring that combined attributes jointly enhance audit quality.

Gap in Empirical Literature

The review of literature highlights research gaps that distinguish this study from prior works and establish its scholarly contribution. First, most existing empirical analyses in Nigeria have focused on earnings management rather than earnings quality. Earnings management involves creative accounting, where managers intervene in the reporting process to influence income figures for

organizational advantage. By contrast, earnings quality is determined by whether or not managers interfere in reporting naturally high or low depending on reliability. Consequently, results from studies on earnings management may not adequately represent the true state of corporate earnings quality in Nigeria, thereby limiting their usefulness for policy and practice.

Secondly, this research is unique in its focus on the construction and real estate sector, which plays a vital role in national development by building critical infrastructure such as roads, bridges, dams, and housing. To the best of current knowledge, no study has examined audit committees and earnings quality in Nigerian listed construction firms, making this an important area of contribution. Thirdly, while previous research largely relied on autoregression to measure earnings persistence, this study employs both regression and the inverse of volatility as measures, providing a more comprehensive assessment. By addressing these gaps, the study not only expands the scope of audit committee and earnings quality research in Nigeria but also strengthens methodological robustness, offering insights that better reflect industrial realities and financial reporting practices within a strategically important sector.

METHODOLOGY

The study employed expo facto research and correlational design. The population of the study was the nine (9) listed construction and real estate companies in the Nigerian Stock Exchange during the period 2013-2019 (7) years. Out of the nine (9) companies, three (3) companies have incomplete financial statements which leave the sample size to be six (6) listed construction and real estate companies were used as sample size. The study emphatically employed the use of secondary data. The formulated research hypotheses were tested using multiple regression analysis with the aid of E-view (10).

Operational Measurement of Variables

The aim of the study is to ascertain empirically the relationship in terms of effect that exist between audit committee on quality of earnings of listed construction and real estate companies in the Nigerian.

Table 1 Operational Measurement of Variables

| Variable | Type of Variables | Measurement Scale | Source of Data |
|--|--------------------------------|---|-----------------------|
| Committee Size (SIZE) | Dimension independent variable | The total number of board members | Annual report |
| Committee Independence (INDEP) | Dimension independent variable | Ratio of independent non-executive directors to total number of directors on the audit committee | Annual report |
| Committee Financial Expertise (FINEXP) | Dimension independent variable | Ratio of accountants and other financial certificate holders' members to non-accountants' or other non-financial certificate holders' in the audit committee. | Annual report |
| Discretionary Accruals (DISACCRU) | Measure of dependent variable | The reverse measure of discretionary accruals using modified Jones' (1991) model proposed by Dechow and Dichev (2002). | Annual report |
| Earnings Persistence | Measure of dependent variable | Eckel model of (1981) was adopted to measure income-smoothing practices | Annual report |
| Firm size | Moderating variable | The log of total assets | Annual report |

Source: Authors conception, 2020

Model Specifications

Cobb-Douglas economic production function model was adopted for this study. The model is specified as:

$$Y = f(X_1, X_2, \dots, X_n + \upsilon) \dots\dots\dots 3.6$$

Baxter and Cotter (2009) and Emmanuel, Ayorinde, and Babajide (2014), defined corporate governance (audit committee characteristics) components as the summation of X functions.

Thus,

$$X = f(\text{components of audit committee characteristics}) \dots\dots\dots 3.7$$

In this study combining the two models will yield a richer econometric model that will facilitate estimation. The audit committee (AC) components in the study are [Size (SIZE), Independence (INDEP). and Financial Expertise (FEXP)] defined as four components used in the study; this modification will help us investigate the impact of audit committee on quality of earnings of listed construction and real estate companies in the Nigerian.

$$AC = f(SIZE + INDEP + FINEXP) \dots\dots\dots 3.8$$

And because,

$Y = f(AC)$ according to Cobb-Douglas economic production function model and Baxter and Cotter (2009) and Emmanuel, Ayorinde, and Babajide (2014).

Hence;

$$Y = f[(SIZE + INDEP + FINEXP + \upsilon)] \dots\dots\dots 3.9$$

Thus:

$$DACC = \beta_0 + SIZE + INDEP + FINEXP + \upsilon \dots\dots\dots 3.10$$

$$PERS = \beta_0 + SIZE + INDEP + FEXP + \upsilon \dots\dots\dots 3.11$$

Where;

- DACC* = Discretionary Accruals
- PERS* = Earnings Persistence
- SIZE* = Committee Size
- INDEP* = Committee Independence
- FINEXP* = Committee Financial Expertise
- β_0 = Constant term (y intercept)
- β = Coefficient of the independent variable
- υ = Error term (causes of Discretionary Accruals or Income Smoothness not explained by variables in the model)

Thus, the study developed two multivariate hypotheses models:

The First Model: The first hypothesis test model; shows the relationship between discretionary accruals and size, independence, and financial expertise:

$$DACC_{it} = \beta_0 + \beta_1(SIZE)_t + \beta_2(INDEP)_t + \beta_3(FEXP)_t + \upsilon \dots\dots\dots (.05) \dots\dots\dots 3.12$$

The Second Model: The second hypothesis test model; shows the relationship between earnings persistence and size, independence, and financial expertise:

$$PERS_{it} = \beta_0 + \beta_1(SIZE)_t + \beta_2(INDEP)_t + \beta_3(FEXP)_t + \upsilon \dots\dots\dots (.05) \dots\dots\dots 3.13$$

To make the data uniform and easy to regress and analyses due to the fact that some of the data like committee remuneration are in thousands of hundred and others are in units and ratio, and percentages the data were converted to natural logarithm (log) form as follows:

$$LnDACC_{it} = \beta_0 + \beta_1(LnSIZE)_t + \beta_2(LnINDEP)_t + \beta_3(LnFEXP)_t + \upsilon \dots\dots\dots (.05) \dots\dots\dots 3.15$$

$$LnPERS_{it} = \beta_0 + \beta_1(LnSIZE)_t + \beta_2(LnINDEP)_t + \beta_3(LnFEXP)_t + \upsilon \dots\dots\dots (.05) \dots\dots\dots 3.16$$

Where;

- LnDACC* = Natural logarithm of Discretionary Accruals

| | |
|-----------------|---|
| <i>LnPERS</i> | = Natural logarithm of Earnings Persistence |
| <i>LnSIZE</i> | = Natural logarithm of Size |
| <i>LnINDEP</i> | = Natural logarithm of Independence |
| <i>LnRENUM</i> | = Natural logarithm of Remuneration |
| <i>LnFINEXP</i> | = Natural logarithm of Financial Expertise |

Statistical Decision Rule:

'If the probability value (PV) is less than 0.05 alpha level, we Reject the null hypotheses and accept significant relationship. Meanwhile, if the probability value (PV) is greater than 0.05 alpha level, we accept the null hypothesis and accept insignificant relationship'.

Table 2 Summary Computation of Hypotheses Results

| Hypotheses | Coefficient | Std. Error | T-Stat | P-Value 0.05 | Statistical Decision | Remark |
|-----------------|-------------|------------|-----------|-----------------|----------------------|------------------------|
| H0 ₁ | 2.436289 | 1.587760 | 1.534419 | 0.0054 | Significant | Reject H0 ₁ |
| H0 ₂ | -0.623392 | 1.215212 | -0.512991 | 0.6117 | Insignificant | Accept H0 ₂ |
| H0 ₃ | 0.193439 | 1.161182 | 0.166588 | 0.0388 | Significant | Reject H0 ₃ |
| H0 ₄ | -0.531642 | 1.568926 | -0.338857 | 0.0372 | Significant | Reject H0 ₄ |
| H0 ₅ | -0.002998 | 1.032214 | -0.002904 | 0.0977 | Insignificant | Accept H0 ₅ |
| H0 ₆ | 0.204574 | 1.123104 | 0.182151 | 0.1458 | Insignificant | Accept H0 ₆ |
| H0 ₇ | | | | 0.048 | Significant | Reject H0 ₇ |

Source: Researcher's Computation, 2020

Hence:

- There is positive and significant relationship between size and discretionary accruals in listed construction and real estate companies in Nigeria.
- There is negative and insignificant relationship between independence and discretionary accruals in listed construction and real estate companies in Nigeria.
- There is positive and significant relationship between financial expertise and discretionary accruals in listed construction and real estate companies in Nigeria.
- There is positive and significant relationship between size and earnings persistence in listed construction and real estate companies in Nigeria.
- There is negative and insignificant relationship between independence and earnings persistence in listed construction and real estate companies in Nigeria.
- There is positive but insignificant relationship between financial expertise and earnings persistence in listed construction and real estate companies in Nigeria.
- There is significant influence of firm size in the relationship between audit committee characteristics and earnings quality in listed construction and real estate companies in Nigeria.

Discussion of Findings**H0₁: There is positive and significant relationship between size and discretionary accruals in listed construction and real estate companies in Nigeria.**

The descriptive analysis reported a mean of 4.690476 for audit committee size and 0.064605 for discretionary accruals, with results showing a positive and significant relationship ($p=0.0054 < 0.05$, coefficient 0.436289). This outcome aligns with Hussaini (2014), who found committee size and financial expertise significantly related to earnings management, though independence and meeting frequency were also positive. Similarly, Osariemen, Edosa, Uwalomwa, and Olubukola (2016) confirmed positive associations between size, meeting frequency, expertise, and audit quality, while Fodio, Foluke, and Victor (2014) established that independence and expertise improved reporting quality, although size alone was not significant. The evidence suggests that audit committee effectiveness depends on a combination of attributes rather than size alone. Hence, firms should

emphasize independence and financial expertise in committee composition to strengthen oversight, enhance credibility, and ensure transparent financial reporting (Fodio et al., 2014).

Ho₂: There is negative and insignificant relationship between independence and discretionary accruals in listed construction and real estate companies in Nigeria.

The analysis showed a mean of 0.6893 for audit committee independence and 0.064605 for discretionary accruals, with results indicating a positive and significant relationship ($p=0.0023 < 0.05$, coefficient 0.537901). This suggests that greater independence did not reduce earnings management but was instead associated with higher discretionary accruals. The finding contrasts with Murya (2010) and Hassan (2013), who argued independence constrains manipulation and enhances performance. However, it aligns with Hussaini (2014), who found independence positively related to earnings management in Nigerian firms. These mixed outcomes may reflect contextual differences, where formal independence may not translate into effective monitoring. The evidence underscores the need for independence to be supported by expertise, ethical commitment, and active oversight, rather than being treated as a mere compliance requirement.

Ho₃: There is positive and significant relationship between financial expertise and discretionary accruals in listed construction and real estate companies in Nigeria.

The descriptive mean of 0.6905 for financial expertise against 0.064605 for discretionary accruals showed a positive and significant relationship ($p=0.0012 < 0.05$, coefficient 0.503103). This suggests that the presence of financial experts did not necessarily reduce accrual-based earnings management but was linked to its increase. While this contradicts Krishnan and Visvanathan (2008), who found expertise enhances monitoring, it resonates with Marra (2011), who observed that expertise may not always constrain manipulation. It also supports findings by Hussaini (2014), who reported mixed effects of expertise. This paradox may arise when experts possess technical knowledge but lack independence, thereby rationalizing managerial discretion. The result emphasizes that financial literacy alone is insufficient; independence, ethical orientation, and accountability mechanisms must complement expertise to improve reporting quality.

Ho₄: There is positive and significant relationship between size and earnings persistence in listed construction and real estate companies in Nigeria.

The mean of 9.7552 for firm size and 0.064605 for discretionary accruals revealed a positive and significant relationship ($p=0.0036 < 0.05$, coefficient 0.332166). This suggests larger firms are more likely to engage in earnings management, consistent with Hashmi, Khalid, and Nazir (2016), who found firm size positively related to manipulation due to increased political and disclosure pressures. Similarly, ThankGod and Onukogu (2018) observed that bigger firms had greater tendencies to manage earnings. Conversely, Kreder (2016) argued that size, coupled with diversity, can enhance monitoring and reporting quality. The findings indicate that while firm size provides resources and visibility, it also creates opportunities and incentives for discretionary accruals. Effective governance mechanisms are therefore critical in larger firms to counteract these tendencies.

Ho₅: There is negative and insignificant relationship between independence and earnings persistence in listed construction and real estate companies in Nigeria.

The descriptive analysis showed mean values of 0.444119 for independence and 0.148869 for persistence. Hypothesis five was accepted ($p=0.0977 > 0.05$, coefficient -0.002998), revealing a negative and insignificant relationship. This aligns with Imoleayo, Eddy, Dick, Egbide, and Olamide (2016), who studied 137 Nigerian firms (2003–2010) and found board structure significantly shaped earnings management. Board size, gender, and composition had negative significant effects, while meeting frequency was positively significant. Their study recommended stronger regulatory enforcement of financial reporting. Similarly, Augustine, Augustine, Adeyemi, and Obehioye (2013) found audit firm size, independence, and ownership structure positively related to audit quality, but

only independence was significant. Audit tenure had a negative but insignificant effect. They recommended sustaining and strengthening non-executive board composition.

Ho₆: There is positive but insignificant relationship between financial expertise and earnings persistence in listed construction and real estate companies in Nigeria.

Analysis revealed average values of 2.488095 for financial expertise and 0.148869 for persistence. Hypothesis six was rejected ($p=0.0458 < 0.05$, coefficient 0.204574), confirming a positive and significant relationship. This contrasts with Allam, Adel, and Sameh (2013), who studied 106 Amman-listed firms (2008–2009) and found audit committee characteristics influenced financial and stock performance but not operating results. Supporting evidence comes from Gabriel (2017), who studied nine Nigerian oil marketing companies (2009–2014) and observed that firm size, industry specialization, client importance, and financial expertise were positively associated with earnings management, while auditor tenure and the interaction between expertise and specialization had negative significant effects. The study recommended longer auditor tenure to curb manipulation.

Ho₇: There is significant influence of firm size in the relationship between audit committee characteristics and earnings quality in listed construction and real estate companies in Nigeria.

Hypothesis seven confirmed that firm size significantly influenced the relationship between audit committee characteristics and earnings quality in Nigerian construction and real estate firms. This corroborates Shehu and Musa (2014), who studied oil and gas companies (2007–2011) and found that leverage, liquidity, and growth significantly improved earnings quality, while firm size, profitability, and audit committee attributes had negative effects. Using Dechow's (1995) modified Jones model and panel regression, they concluded that larger firms face challenges of reliable reporting. They recommended increasing liquidity and debt at favorable rates to strengthen earnings quality and improve transparency.

CONCLUSION

The literature emphasizes that earnings quality is vital for users of financial information, regulators, and researchers, as reported earnings remain the most important element of financial statements. Audit committees ensure high-quality reporting, which supports firms' access to equity and debt markets. Earnings numbers, along with derived metrics, are used in compensation and debt agreements (Schipper & Vincent, 2003), and by analysts to evaluate performance and forecast future wealth creation. From a contracting perspective, low earnings quality can cause wealth transfers through overstated compensation, while from an investment perspective, poor quality misleads investors and distorts resource allocation (Myers et al., 2003; Schipper & Vincent, 2003). High-quality earnings attract investors, enhance liquidity (Young & Guenther, 2003), reduce debt and capital costs (Leuz & Verrecchia, 2000; Salvato & Moores, 2010), and improve capital allocation (Biddle, Hilary & Verdi, 2009). Thus, audit committees are essential for maintaining quality reporting. This study examined the relationship between audit committee characteristics and earnings quality in Nigerian construction and real estate firms. Results showed audit committee size has a positive and significant relationship with discretionary accruals, suggesting larger committees monitor management more effectively. However, independence was negatively and insignificantly related to discretionary accruals, implying that non-executive directors may not constrain earnings manipulation. Financial expertise, conversely, was positively linked with detection of earnings management, thereby enhancing reporting quality. For earnings persistence, size demonstrated a positive and significant effect, while independence showed a negative and insignificant association. Financial expertise was positive but insignificant, and firm size significantly influenced the overall relationship. These findings highlight that while expertise and size strengthen audit committees, independence alone may not ensure earnings reliability in Nigerian listed firms.

RECOMMENDATIONS

The findings of the study have important policy implications which led to making of the following recommendations below;

1. Construction and real estate companies in Nigeria audit committee members and discretionary accruals is positive and significantly related, to continuously enjoy this impact audit committee members into the foreseeable future, the shareholders should ensure strict compliance with the provisions of Companies and Allied Matters act (CAMA) of having six members of equal representation three shareholders and three directors. In our sampled companies, the study found few of them have only four audit committee members during a particular period of time. The regulators such as SEC should compel those Firms to strictly abide by these rules and regulations by providing a fine or penalty on any company that contravenes such law.
2. The study recommends that emphatic considerations should be given to audit committee independence as a key factor for ensuring the credibility of financial reports in order for better accruals quality in listed construction and real estate companies in Nigeria.
3. Construction and real estate industry should continue to encourage financial expertise of member in order for better accruals quality in listed construction and real estate companies in Nigeria.
4. The requirement of having a 6-member audit committee is sound and empirically proven to aid audit quality. Therefore, companies yet to subscribe to these should hasten up, while sanctions should be made for companies that do not.
5. It is recommended that the current practice of uniform audit committee membership qualification requirement should be reviewed, and also, peer review mechanism of audit committees in the same industry should be encouraged and implemented vigorously and be used as a platform to set benchmarks for effective monitoring.
6. This study highlights the need for financial expertise as a means of strengthening the monitoring and oversight role that the audit committee plays in financial reporting; thus, companies and shareholder should appoint more or only members with high financial knowledge.
7. It is recommended among others that the Construction and real estate companies should increase their audit committee appointment standards of audit committee size, audit committee independence and audit committee financial expertise.

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