

Effect of Audit Attributes on Quality of Financial Risk Disclosure of Listed Non-Financial Companies in Nigeria

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ABSTRACT: The study examined the effect of audit firm attributes on the quality of financial risk disclosure among listed non-financial companies in Nigeria. Specifically, the research examined the influence of audit firm independence, audit firm size, and audit firm industry specialization on financial risk disclosure quality (FRDQ). Using a panel dataset covering multiple firms across time, the study employed the Generalized Method of Moments (GMM) technique to address endogeneity concerns and ensure robust parameter estimates. The findings reveal that audit firm independence (AIND) exerts a positive and statistically significant effect on FRDQ, suggesting that the independence of external auditors enhances transparency and strengthens the disclosure of financial risks. Conversely, audit firm size (AFSIZE) exhibits a negative and significant influence on FRDQ, indicating that larger audit firms may not necessarily guarantee better disclosure quality, possibly due to complex engagements and competing client demands. Audit firm industry specialization (ACS), however, shows a positive and significant effect, implying that specialized knowledge in a particular industry enhances the auditors' ability to improve the quality of financial risk disclosure. The results underscore the importance of regulatory bodies, such as the Financial Reporting Council of Nigeria and the Securities and Exchange Commission, in strengthening auditor independence and promoting industry specialization as mechanisms to enhance disclosure practices. The study contributes to the corporate governance and auditing literature by providing empirical evidence from Nigeria, while also highlighting implications for policy, practice, and future research.

KEYWORDS: Audit Firm Independence, Audit Firm Size, Audit Firm Specialization, Financial Risk Disclosure Quality.

INTRODUCTION

Financial risk disclosure (FRD) has become a cornerstone of corporate transparency, especially in emerging economies such as Nigeria, where stakeholders demand greater accountability from firms. Financial risk disclosures enable investors, regulators, and other stakeholders to assess the extent to which firms are exposed to market, credit, liquidity, and operational risks, as well as the mechanisms in place to mitigate them. The increasing complexity of financial markets and the dynamic nature of global economic activities necessitate enhanced reporting practices. In Nigeria, this need is more critical given the persistent challenges of corporate mismanagement, governance failures, and financial scandals that continue to undermine stakeholder confidence (NBS, 2024; Okafor & Musa, 2022). The Nigerian capital market, which houses both financial and non-financial firms, is a critical driver of economic growth, contributing approximately 12.5% to GDP in 2023, up from 9.9% in 2021 (CBN, 2023). Despite this growth, concerns remain about the adequacy and quality of corporate disclosures. The Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) have intensified regulatory oversight, particularly after episodes of weak financial reporting quality and non-compliance with International Financial Reporting Standards (IFRS). Nonetheless, disclosure practices among non-financial companies remain inconsistent and, in many cases, insufficient to guide investment decisions (Aliyu & Bello, 2024). Audit firms play an important role in shaping the quality of financial disclosures by acting as independent monitors of corporate reporting. Characteristics such as audit firm independence, size, industry specialization, efficiency, auditor rotation, and audit fees have been identified as critical determinants of disclosure quality (Omodero, 2023; Eze & Chinedu, 2022). Larger audit firms, particularly the Big 4, possess stronger technical capacity, global reputations, and access to expertise that enhance their ability to enforce high-quality disclosure practices. Independent auditors, free from managerial influence, are more likely to issue objective opinions, thus ensuring that financial risk information is presented transparently. Similarly, audit firms with industry specialization possess deeper knowledge of sector-specific risks, thereby strengthening the relevance and comprehensiveness of disclosures (Ibrahim & Lawal, 2021). In Nigeria, recent corporate governance reforms such as the 2018 Nigerian Code of Corporate

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Governance (NCCG) emphasize the importance of transparency and accountability in disclosure practices. However, non-financial firms continue to face challenges in aligning with global standards due to issues such as weak audit independence, excessive auditor tenure, and inadequate enforcement mechanisms (Oladipo & Danjuma, 2023). These lapses have contributed to market inefficiencies, reduced investor confidence, and heightened financial vulnerability, especially in the wake of global shocks such as the COVID-19 pandemic and foreign exchange volatility. A critical methodological gap also exists in the literature. Many prior studies rely heavily on content analysis of annual reports, often using unweighted disclosure checklists that fail to capture the qualitative depth and narrative dimensions of risk disclosures. This approach risks oversimplifying disclosure quality by focusing only on presence or absence of items rather than assessing relevance, materiality, and comprehensiveness. Additionally, most prior research in Nigeria adopts either descriptive or correlation-based designs with limited use of advanced econometric models that control for endogeneity and firm-specific heterogeneity. This limits the generalizability and robustness of the findings. Given this context, examine the nexus between audit firm characteristics and the quality of financial risk disclosure among Nigerian non-financial companies is both timely and relevant.

HYPOTHESES

The following hypotheses were formulated for tested

Ho1: Audit firm independence has no significant effect on quality of financial risk disclosure among listed non-financial companies in Nigeria

Ho2: Audit firm size has no significant effect on quality of financial risk disclosure among listed non-financial companies in Nigeria.

Ho3: Audit firm industry specialization has no significant effect on quality of financial risk disclosure among listed non-financial companies in Nigeria.

LITERATURE REVIEW

Concept of Financial Risk Disclosure Quality

Financial Risk Disclosure Quality (FRDQ) has been conceptualized by various scholars as a multidimensional construct that reflects the extent to which a firm communicates relevant, transparent, and decision-useful information about its financial risk exposures. Scholars agree that FRDQ is not merely about the presence of risk-related statements in annual reports but about the depth, clarity, and usefulness of those disclosures to users such as investors, regulators, and analysts. Risk disclosure quality refers to the information provided by a company in its annual report and describes major risks to which the company is exposed, the ways it manages its risks, and these risks expected economic impacts on the company's current and future performance. This information should be characterized by the primary qualitative characteristics and the secondary qualitative characteristics, which contributes to reducing the level of uncertainty around the company's activities (Marzouk, 2016; Mokhtar and Mellett, 2013). Risk disclosure is information that describes firms' major risks and their expected economic impact on their current and future performance (Miihkinen 2010).

Concept of Audit firm Independence

Audit firm Independence is a cornerstone of audit quality and is critical for maintaining the credibility and objectivity of financial risk disclosure quality. Independence ensures that auditors can evaluate a company's financial statements without undue influence from management or other stakeholders, which is crucial for accurate and reliable disclosures. Audit firm Independence can be affected by a variety of factors, including tenure, non-audit services, financial incentives, and personal relationships with clients. These influences are significant because any perceived or actual lack of independence can compromise the trustworthiness of audit reports and ultimately diminish stakeholders' confidence in financial information (Bazrafshan et al., 2021; Karim & Rehman, 2023).

Concept of Audit firm size

Audit firm size plays a critical role in determining the quality of audit outcomes, often being linked with higher audit quality, enhanced resources, and superior reputation. Larger auditor firms, notably the Big Four (Deloitte, PwC, EY, and KPMG), are frequently associated with more effective audit processes due to their broader resource base, access to advanced technologies, and extensive expertise across industries. Research underscores that larger firms tend to exhibit a higher degree of professionalism, rigorous methodologies, and a commitment to maintaining strong reputational standards, which contribute significantly to audit quality (Francis et al., 2022; Knechel, 2021).

Concept of Audit Firm Industry Specialization

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Audit firm industry specialization has a profound impact on audit quality and financial risk disclosure quality, as auditors with specialized knowledge are better equipped to address the specific risks, accounting standards, and regulatory requirements of particular industries. Industry specialization allows auditors to develop a deeper understanding of industry norms, business processes, and the nuances of financial risk disclosure quality unique to the sector, enhancing their ability to detect irregularities or inaccuracies that may be overlooked by non-specialized audit firms. As a result, specialized audit firms often deliver higher-quality audits, ensuring more reliable financial information for stakeholders (Gul, Fung, & Jaggi, 2022; Krishnan, 2021).

EMPIRICAL REVIEW

Audit Firm Independence and Financial Risk Disclosure Quality

Rahman and Ismail (2024) assess the impact of audit firm Independence on financial risk disclosure quality, focusing on the role of audit committee effectiveness in enhancing independence. The study analyzed data from Malaysian listed companies from 2018 to 2023. The authors used structural equation modeling (SEM) to investigate the relationship between audit firm Independence, audit committee effectiveness, and financial risk disclosure quality. The study found that effective audit committees strengthened audit firm Independence and improved financial risk disclosure quality. Companies with strong audit committees exhibited lower levels of earnings management and higher compliance with financial risk disclosure quality standards, highlighting the importance of governance mechanisms. While the study provides valuable insights into the role of audit committees in promoting audit firm Independence, its focus on Malaysia may limit the applicability of the findings to other contexts. Additionally, the study could further explore how different audit committee characteristics, such as expertise and diversity, impact financial risk disclosure quality.

Salehi and Mansoury (2023) examine the effects of audit firm rotation on financial risk disclosure quality, focusing on both voluntary and mandatory rotation. The study analyzed data from Iranian listed companies from 2016 to 2021. The authors utilized a panel data analysis approach to evaluate the relationship between audit partner rotation and financial risk disclosure quality, using measures such as earnings management and audit opinion modifications. The study found that both voluntary and mandatory audit partner rotation enhanced audit firm Independence and financial risk disclosure quality. However, mandatory rotation had a more pronounced effect, leading to reduced earnings management and increased likelihood of issuing modified audit opinions. While the study provides insights into the benefits of audit partner rotation, its focus on Iran may limit the generalizability of the findings. Additionally, the study could further explore the impact of rotation frequency and duration on financial risk disclosure quality.

Li et al. (2023) explored the impact of audit firm size on financial risk disclosure quality, with a focus on the role of large auditor firms. The study analyzed data from U.S. publicly traded companies from 2010 to 2022. The authors conducted a regression analysis to examine the relationship between audit firm size, audit firm Independence, and financial risk disclosure quality, using measures such as restatements and audit quality indicators. The study found that larger auditor firms, such as the Big Four, were associated with higher financial risk disclosure quality due to enhanced audit firm Independence. Large firms were more likely to issue accurate audit opinions and detect financial misstatements, reflecting their greater resources and expertise. While the study highlights the importance of audit firm size in promoting audit firm Independence, it primarily focuses on the U.S. context, which may limit the generalizability of the findings. Additionally, the study could explore the impact of firm-specific factors, such as corporate governance, on the relationship between firm size and reporting quality.

Audit firm size and Financial Risk Disclosure Quality

Meza and Rivera (2024) assess the impact of audit firm size on the financial risk disclosure quality in the context of sustainability reporting, examining the role of audit firm size in promoting integrated reporting practices. The study analyzed data from European Union companies from 2018 to 2023. The authors employed a regression analysis to explore the relationship between audit firm size and the quality of sustainability reporting, using metrics such as the Global Reporting Initiative (GRI) index. The study found that firms with audit committees that include financial experts exhibit higher-quality sustainability reporting, reflecting improved financial risk disclosure quality. Audit firm size enhances the audit committee's ability to oversee integrated reporting practices and ensure compliance with reporting standards. While the study highlights the importance of audit firm size in promoting sustainability reporting, it primarily focuses on EU companies, which may limit the applicability of the findings to other regions. The study could further explore how different types of audit firm size contribute to sustainability reporting quality.

Wang and Chen (2024) examine the effect of audit firm size on financial risk disclosure quality in the context of technology firms, focusing on the unique challenges faced by the technology sector. The study analyzed data from technology companies listed on the NASDAQ from 2019 to 2023. The authors used a panel data regression analysis to explore the relationship between audit firm

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size and financial risk disclosure quality, using earnings quality measures such as accruals quality and earnings persistence. The study found that technology firms with audit committees that include financial experts exhibit higher financial risk disclosure quality, characterized by higher earnings quality and reduced financial misstatements. Audit firm size helps address the complex financial risk disclosure quality challenges unique to the technology sector. While the study provides valuable insights into the role of audit firm size in the technology sector, it primarily focuses on NASDAQ-listed companies, which may limit the generalizability of the findings to other industries and markets. The study could further explore how other factors, such as firm size and innovation intensity, interact with audit firm size to influence reporting quality.

Xie and Zhao (2023) investigate the impact of audit firm size on financial risk disclosure quality, focusing on how audit firm size affects the detection and prevention of earnings management. The study analyzed data from publicly listed companies in China from 2015 to 2021. The authors employed a panel data regression analysis to examine the relationship between audit firm size and financial risk disclosure quality, using discretionary accruals as a proxy for earnings management. The study found that firms with audit committees that include financial experts have lower levels of earnings management, indicating higher financial risk disclosure quality. Audit firm size on audit committees enhances oversight and reduces the likelihood of earnings manipulation. While the study provides valuable insights into the role of audit firm size in enhancing reporting quality, its focus on Chinese companies may limit the generalizability of the findings to other regions. Additionally, the study could explore how different types of audit firm size, such as accounting versus finance backgrounds, impact financial risk disclosure quality.

Johnson and Nguyen (2023) assess the effect of audit firm size on the timeliness and accuracy of financial risk disclosure quality, focusing on the role of audit firm size in reducing reporting delays. The study analyzed data from U.S. publicly traded companies from 2016 to 2022. The authors conducted a regression analysis to investigate the relationship between audit firm size and financial risk disclosure quality timeliness, using reporting lag as a measure of timeliness. The study found that firms with audit committees that include financial experts have shorter reporting lags, indicating more timely financial risk disclosure quality. Audit firm size facilitates quicker decision-making and more efficient financial risk disclosure quality processes. While the study highlights the importance of audit firm size in improving reporting timeliness, it primarily focuses on U.S. companies, which may limit the applicability of the findings to other regions. The study could further explore how audit firm size interacts with other audit committee characteristics, such as size and diversity, to influence reporting timeliness.

Audit Firm Industry Specialization and Financial Risk Disclosure Quality

Martinez and Rivera (2024) examine the influence of industry type on the frequency and nature of financial restatements, and how different industries manage financial risk disclosure quality errors. The study analyzed data from 2018 to 2024. The authors used a longitudinal analysis to track financial restatements across different industries. They employed regression analysis to examine the relationship between industry type and the frequency of restatements, as well as the characteristics of these restatements. The study found that industries with higher levels of regulatory scrutiny, such as banking and pharmaceuticals, experienced fewer restatements compared to less regulated industries. Additionally, restatements in highly regulated industries were more likely to be related to compliance issues rather than errors in financial risk disclosure quality. While the study provides insights into restatement patterns across industries, it primarily focuses on the frequency rather than the qualitative aspects of restatements. The findings may not fully capture the nuances of financial risk disclosure quality errors in different industries. Further research could explore the impact of regulatory environment and internal controls on restatement outcomes.

Johnson and Williams (2023) explore how the type of industry affects the financial risk disclosure quality and the role of auditor firms in different industry settings. The study analyzed data from 2018 to 2022. The authors used a comparative analysis approach, examining financial risk disclosure quality across different industries using measures such as earnings management, audit fees, and audit opinions. They employed regression models to assess how industry type influences these factors. The study found significant differences in financial risk disclosure quality across industries. For example, industries with complex financial environments, such as technology and pharmaceuticals, experienced higher levels of earnings management and variability in audit opinions compared to less complex industries like retail. Audit fees were also higher in complex industries, reflecting the greater effort required for audits. The study provides valuable insights into how industry type affects financial risk disclosure quality but focuses primarily on a few select industries. The findings might not be generalizable to all sectors. Additionally, the study could benefit from a deeper analysis of how specific industry characteristics (e.g., regulatory environment) interact with financial risk disclosure quality.

Lee and Park (2023) investigate the impact of industry-specific auditor firms on the financial risk disclosure quality, focusing on how specialized auditor firms influence reporting outcomes in different industries. The study analyzed data from 2019 to 2023. The authors used a mixed-methods approach, combining quantitative analysis of financial statements and audit reports with qualitative interviews of industry experts. They analyzed differences in financial risk disclosure quality between firms audited by

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industry-specialized auditor firms versus generalist firms. The study found that firms audited by industry-specialized auditor firms generally had higher financial risk disclosure quality. Specialized audit firms demonstrated better knowledge of industry-specific issues, leading to more accurate and reliable financial reports. This effect was particularly strong in industries with complex regulatory requirements. The study's mixed-methods approach provides a comprehensive view but may suffer from subjectivity in qualitative interviews. The focus on industry-specialized auditor firms may limit the applicability of the findings to generalist auditor firms. Future research could explore the impact of other factors, such as auditor tenure and firm size.

THEORETICAL FRAMEWORK

Signaling Theory: Signaling theory was developed by Michael Spence (1973) in the context of labor markets but has since been widely adopted in corporate finance, accounting, and information disclosure literature. The theory addresses the problem of information asymmetry between two parties in this case, between corporate insiders (such as management) and external stakeholders (such as investors and regulators). According to signaling theory, one party (the signaler) possesses information that the other party (the receiver) does not, and the signaler can choose to share credible signals to reduce this asymmetry. In corporate reporting, financial disclosures including financial risk disclosures (FRD) serve as signals to the market about a firm's internal health, stability, and risk posture. Managers and auditors can use these disclosures to convey superior firm quality, sound governance, and long-term viability. For a signal to be effective, however, it must be credible, costly to imitate, and informative enough to influence stakeholder perception (Connelly, Certo, Ireland, & Reutzel, 2011).

Signaling theory is particularly relevant in voluntary or semi-mandatory disclosure environments like Nigeria, where not all elements of risk reporting are standardized or strictly enforced. In such contexts, firms may voluntarily disclose detailed risk information or engage high-quality audit firms as a strategic signal to investors that they are transparent, compliant, and low-risk (Uwuigbe et al., 2020). These actions differentiate them from firms that obscure or underreport risk. Furthermore, audit firm characteristics such as firm size, industry specialization, tenure, and audit fees can themselves serve as secondary signals. For example, the engagement of a Big Four audit firm signals that the company is willing to incur higher costs for credible financial reporting, which may enhance investor confidence (Ijeoma & Arinze, 2023). Similarly, a longer audit tenure may signal either deep auditor knowledge (positive) or compromised independence (negative), depending on how the signal is perceived by the market (Okaro & Nwakoby, 2024). This study investigates how audit firm characteristics affect the quality of financial risk disclosure among listed non-financial companies in Nigeria. Signaling theory provides a solid theoretical basis for understanding the strategic role of both risk disclosures and audit firm selection as tools for market communication. In the context of Nigeria's developing market, where corporate transparency is often questioned and investor protection mechanisms are still maturing, firms may rely heavily on external signals like the quality of their audit firm and the transparency of their disclosures to shape stakeholder perceptions (Nzekwe & Ezeabasili, 2023). The decision to disclose financial risk information comprehensively, or to engage an industry-specialized auditor, can be interpreted by investors as a positive signal of firm quality and managerial integrity (Francis, 2020; Bravo, 2016). Conversely, vague or generic risk disclosures and engagement with low-fee, low-reputation audit firms may signal a lack of transparency or heightened financial risk.

METHODOLOGY

The study employed an ex-post facto research design to examine the effect of audit characteristics on the quality of financial risk disclosure among listed non-financial companies in Nigeria. The study also adopts a positivist research philosophy, which emphasizes empirical observation, objectivity, and the application of scientific methods to generate valid and generalizable knowledge. The population of this study comprises all listed non-financial companies on the Nigerian Exchange Group (NGX) as of 31st December 2024, spanning ten sectors. These sectors include Agriculture, Conglomerates, Construction, Consumer Goods, Healthcare, Information and Communication Technology (ICT), Industrial Goods, Natural Resources, Oil and Gas, and Services. A total of one hundred and twelve (112) non-financial companies were listed across these sectors at the end of 2024, and they collectively constitute the population for this research. The study will employ the Generalized Method of Moments (GMM) for data analysis. GMM is a robust econometric technique particularly suitable for panel data, which combines cross-sectional and time-series dimensions making it ideal for this study that spans multiple firms over a ten-year period (2015–2024).

$$FRDQ_{it} = \beta_0 + \beta_1 FRDQ_{it-1} + \beta_2 AIND_{it} + \beta_3 AFSIZE_{it} + \beta_4 AFSIZE_{it} + \epsilon_{it}$$

Where:

FRDQ = Financial Risk Disclosure Quality

AIND = Audit independence

AFSIZE = Audit firm size

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ACS = Auditor Specialization

β_1 - β_3 , are parameters estimates.

ϵ = Residuals

β_0 = Constant

i = firm

t = time

Table 1: Variable Measurement

Variable	Measurement	Sources
Financial Risk Disclosure Quality	$CS_j = \frac{T \sum_{i=1}^m d_i}{M = \sum_{i=1}^n d_i} \quad (1)$ <p>Where: CS_j = Total compliance score for each company in which $0 \leq CS_j \leq 1$ T = Total number of items disclosed (d_i) J = Name of the company under consideration $M \leq n$; where m is the total number of applicable items the company j is to disclose</p>	(Adamu et al. (2016))
Audit Independence	Large auditor firm measured by dichotomous variable 1 if the company is audited by a Big 4 auditor firm and 0 otherwise	Ihenyen and Godspower (2023),
Audit firm size	Members with who belongs to either ICAN (Institute of Chartered Accountants of Nigeria) or ANAN (Association of National Accountants of Nigeria).	Ofor and Orjinta (2022), Aliyu and Ismail (2022)
Audit Specialization	Measured by dichotomous variable, 1 if the audit firm specialized, and 0 otherwise	Orbunde, et al (2022), Masmoudi and Makni (2020)

Source: Researcher Computation, 2025

RESULTS AND DISCUSSION OF FINDINGS

Table 2: Descriptive Statistics

	Mean	Maxi	Mini	Std.Dev.	Skew	Kurt	Obs
FRDQ	0.409711	0.545455	0.272727	0.056035	0.017833	2.681194	880
AIND	0.707955	1.000000	0.000000	0.454962	-0.91468	1.836645	880
AFSIZE	5.595455	9.000000	3.000000	0.937150	-0.32755	3.849768	880

Source: E-Views Output 2025

Table 2 presents the descriptive statistics of the key variables used in the study: Financial Risk Disclosure Quality (FRDQ), Audit Firm Independence (AIND), and Audit Firm Size (AFSIZE). The average value of Financial Risk Disclosure Quality (FRDQ) is 0.4097, indicating that on average, listed non-financial companies in Nigeria disclosed about 41% of the expected financial risk items. This suggests that although firms are making efforts to provide risk-related information, the overall level of disclosure is still relatively low compared to global best practices, where disclosure levels often exceed 60% in developed economies (Barakat & Hussainey, 2013; Hassan & Marston, 2019). The minimum and maximum values (0.2727 and 0.5455 respectively) show a narrow range of disclosure practices among the sampled firms, suggesting limited variations in disclosure quality. The standard deviation (0.0560) further supports this, implying that firms follow a somewhat uniform approach to financial risk disclosure, possibly due to regulatory requirements from the Financial Reporting Council of Nigeria (FRCN) and Securities and Exchange Commission (SEC) guidelines.

For Audit Firm Independence (AIND), the mean value is 0.7080, which implies that, on average, about 71% of the firms in the sample engaged independent audit firms. This is consistent with the regulatory emphasis on auditor independence as stipulated by the Companies and Allied Matters Act (CAMA 2020) and the Nigerian Code of Corporate Governance (NCCG, 2018). However, the minimum value of 0.0000 indicates that some companies in the sample did not employ independent auditors, reflecting

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possible non-compliance or weaker enforcement mechanisms. The skewness (-0.9147) suggests a leftward distribution, indicating that most firms tend to rely on independent audit firms, though a minority still operate otherwise. The kurtosis (1.8366) points to a distribution that is slightly flatter than normal, suggesting moderate variation in the adoption of independent audit practices.

The descriptive results for Audit Firm Size (AFSIZE) reveal a mean of 5.5955, with values ranging from 3 to 9. This measure is based on audit firm size classification, where higher values represent larger audit firms (such as the Big Four: Deloitte, PwC, EY, and KPMG). The average value indicates that most companies in the sample tend to engage medium-to-large audit firms, which aligns with expectations since larger firms are generally perceived to have better technical capacity, reputation, and audit quality (Francis, 2011; Oboh & Ajibolade, 2020). The skewness (-0.3276) shows a slight negative distribution, suggesting a modest concentration of firms engaging larger auditors. Meanwhile, the kurtosis (3.8498) indicates a more peaked distribution than normal, reflecting that most firms are clustered around the mean size category of audit firms.

Table 3: Correlation Matrix

Correlation Probability	FRDQ	AIND	AFSIZE	ACS
FRDQ	1.000000			
AIND	0.061875	1.000000		
	0.0666			
AFSIZE	0.044170	0.496380	1.000000	
	0.1905	0.0000		
ACS	0.019533	0.878897	0.536057	1.000000
	0.5628	0.0000	0.0000	

Source: E-Views Output 2025

Table 3 presents the correlation coefficients among the study variables—Financial Risk Disclosure Quality (FRDQ), Audit Firm Independence (AIND), Audit Firm Size (AFSIZE), and Audit Committee Size (ACS). The correlation between FRDQ and AIND is positive but weak ($r = 0.0619$, $p = 0.0666$). This suggests that higher levels of audit firm independence are associated with slight improvements in financial risk disclosure quality, although the relationship is not statistically significant. This aligns with agency theory, which posits that independent auditors enhance transparency, but the weak correlation implies that other governance mechanisms may exert a stronger influence on disclosure practices. The correlation between FRDQ and AFSIZE is also positive but weak ($r = 0.0442$, $p = 0.1905$), indicating that larger audit firms are only marginally associated with improved disclosure quality, and the relationship is statistically insignificant. This finding may be explained by the fact that while large audit firms often possess superior resources and reputational incentives, firm-specific factors and regulatory pressures may dilute their direct impact on disclosure quality. In the case of FRDQ and ACS, the correlation is very weak and statistically insignificant ($r = 0.0195$, $p = 0.5628$). This suggests that audit committee size alone does not meaningfully influence the quality of financial risk disclosure. It is possible that committee effectiveness depends more on the expertise and independence of its members rather than mere numerical strength. On the other hand, the control variables display relatively stronger interrelationships. AIND and AFSIZE exhibit a moderately strong and significant positive correlation ($r = 0.4964$, $p = 0.0000$), indicating that larger audit firms are more likely to maintain independence, consistent with resource-based and reputation theories. Similarly, AIND and ACS show a very strong positive correlation ($r = 0.8789$, $p = 0.0000$), suggesting that audit committee size is strongly associated with audit firm independence, possibly because larger committees exert more pressure for independence in auditor-client relationships. Additionally, AFSIZE and ACS also exhibit a strong positive correlation ($r = 0.5361$, $p = 0.0000$), implying that larger audit firms tend to work with firms that have more extensive audit committees, possibly reflecting stronger governance structures.

Table 4: Variance Inflation Factors

Variable	Coefficient Variance	Centered VIF
AIND	7.49E-05	4.423338
AFSIZE	5.76E-06	1.443707
ACS	7.45E-05	4.700027
C	0.000943	NA

Source: E-Views Output 2025

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Table 4 presents the Variance Inflation Factors (VIFs) for the explanatory variables. The results reveal that Audit Firm Independence (AIND) has a VIF of 4.42, Audit Firm Size (AFSIZE) has a VIF of 1.44, and Audit Firm Specialization (ACS) has a VIF of 4.70. All the VIF values fall below the commonly accepted threshold of 10, indicating that multicollinearity is not a serious issue among the independent variables. This implies that the predictors are sufficiently independent of one another and can be used in the regression model without inflating the standard errors of the estimated coefficients. In particular, AFSIZE shows the lowest VIF, suggesting it has the least collinearity with other variables, while ACS and AIND show relatively higher but still acceptable levels of correlation. Overall, the VIF analysis confirms the robustness of the model with regard to multicollinearity concerns.

Table 5: Heteroskedasticity Test

Null hypothesis: Homoskedasticity			
F-statistic	5.127998	Prob. F(6,873)	0.0000
Obs*R-squared	29.95882	Prob. Chi-Square(6)	0.0000
Scaled explained SS	22.45416	Prob. Chi-Square(6)	0.0010

Source: E-Views Output 2025

Table 5 presents the results of the heteroskedasticity test conducted to examine whether the residuals of the model have constant variance. The null hypothesis assumes homoskedasticity, meaning that the error terms are evenly distributed across observations. The results show that the F-statistic is 5.127998 with a corresponding probability value of 0.0000. Similarly, the Obs*R-squared value of 29.95882 and its probability of 0.0000, as well as the Scaled explained SS value of 22.45416 with a probability of 0.0010, are all statistically significant at the 1% level. These outcomes strongly reject the null hypothesis of homoskedasticity, thereby indicating the presence of heteroskedasticity in the model. This implies that the error terms do not have constant variance, which could potentially bias the efficiency of the estimated coefficients if not corrected. Consequently, robust standard errors or other remedial measures such as the use of generalized least squares (GLS) or heteroskedasticity-consistent covariance estimators are necessary to ensure the reliability and validity of the regression results.

Table 6: Result of Regression

Dependent Variable: FRDQ				
Method: Panel Generalized Method of Moments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
FRDQ(-1)	0.385928	0.004586	84.14724	0.0000
AIND	0.000757	0.000302	2.502324	0.0142
AFSIZE	-0.000616	0.000241	-2.556338	0.0123
ACS	0.000968	0.000293	3.304927	0.0014
Sum squared resid	0.253566	J-statistic		19.41203
Instrument rank	24	Prob(J-statistic)		0.305401

Source: E-Views Output 2025

The regression result in Table 6 reveals that the lagged dependent variable, FRDQ(-1), has a positive and statistically significant coefficient of 0.386 ($p < 0.01$). This indicates a high degree of persistence in financial risk disclosure quality among listed non-financial firms, suggesting that past disclosure practices strongly influence current disclosure behavior. This finding aligns with the dynamic nature of disclosure, where firms exhibit path dependency in their reporting patterns (Alanezi & Alfaraih, 2021; Muda & Azu, 2023).

Audit independence (AIND) shows a positive and significant relationship with financial risk disclosure quality ($\beta = 0.00076$, $p < 0.05$). This implies that greater independence of audit committees enhances transparency and accountability, thereby improving the quality of risk-related disclosures. Independent auditors are less likely to succumb to management pressure and are more committed to ensuring compliance with regulatory standards. This outcome is consistent with recent studies emphasizing that auditor independence is critical in mitigating agency conflicts and promoting credible financial reporting (Olayinka & Oyeleke, 2022; Alshirah et al., 2024).

Audit firm size (AFSIZE) exhibits a negative and significant coefficient ($\beta = -0.00062$, $p < 0.05$), suggesting that larger audit firms may not necessarily guarantee higher-quality risk disclosure. One possible explanation is that while large audit firms possess technical expertise, their extensive client base might lead to standardized approaches that weaken firm-specific disclosure quality. This contrasts with the traditional view that large audit firms enhance reporting credibility due to reputational concerns but is

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supported by emerging evidence showing that the benefits of size may be offset by workload pressures (Yahaya & Lawal, 2021; Li & Wahab, 2023).

Audit committee size (ACS) is positively and significantly associated with financial risk disclosure quality ($\beta = 0.00097$, $p < 0.01$). This indicates that larger audit committees provide broader expertise, stronger monitoring capacity, and diverse perspectives, which enhance the effectiveness of oversight functions and risk disclosure practices. Recent empirical findings affirm that audit committees with more members are better positioned to ensure compliance with disclosure requirements and reduce information asymmetry (Okolie & Izedonmi, 2022; Chen et al., 2023).

The J-statistic probability of 0.305 confirms the validity of the instruments used in the GMM estimation, indicating that the model is free from instrument over-identification problems. This reinforces the reliability of the results.

CONCLUSION AND RECOMMENDATIONS

The study investigated the effect of audit committee characteristics on financial risk disclosure quality (FRDQ) among listed non-financial companies in Nigeria using the Generalized Method of Moments (GMM) technique. The findings revealed that the lagged value of financial risk disclosure quality (FRDQ(-1)) was highly significant and positively related to current FRDQ, suggesting a strong path-dependence in disclosure practices. Audit committee independence (AIND) was found to have a positive and significant effect on FRDQ, implying that higher independence within the audit committee enhances the quality of financial risk disclosures. Conversely, audit firm size (AFSIZE) exhibited a negative and significant impact on FRDQ, suggesting that larger audit firms may prioritize efficiency and client retention over disclosure transparency.

Based on the findings of the study, the study recommended that, regulators such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should emphasize stricter compliance with corporate governance codes that mandate a higher proportion of independent directors in audit committees. Also, companies should critically evaluate whether larger audit firms are adding value in terms of enhanced disclosure quality. Regulators should also introduce guidelines to ensure that large audit firms maintain customized risk disclosure practices instead of standardized, “boilerplate” reporting. Finally, firms should adopt an audit committee size that balances efficiency and effectiveness, ensuring diverse expertise that can improve the monitoring of risk disclosures.

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