Effect of Audit Committee Financial Expertise and Diligence on Related Party Transactions of Listed Financial Services in Nigeria

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DOI: https://doi.org/10.51583/IJLTEMAS.2026.150700156

Received: 14 August 2026; Accepted: 19 August 2026; Published: 26 August 2026

ABSTRACT

This study examined the effect of audit committee financial expertise and diligence on related party transaction (RPT) disclosure among listed financial service firms in Nigeria. An ex-post facto research design was adopted using secondary data obtained from the annual reports of all 45 financial service companies listed on the Nigerian Exchange (NGX) as at 31 December 2024. A census sampling technique was employed, while logistic regression was used to analyze the data. The findings revealed that audit committee financial expertise has a positive and statistically significant effect on RPT disclosure (OR = 0.3425, p = 0.001), indicating that financially competent audit committees enhance transparency and strengthen financial reporting. Conversely, audit committee diligence exhibited a positive but statistically insignificant effect on RPT disclosure (OR = 0.0122, p = 0.564), suggesting that meeting frequency alone does not improve disclosure quality. Among the control variables, leverage had a significant positive effect on RPT disclosure (p = 0.030), whereas firm size showed no significant influence (p = 0.781). The study concludes that audit committee financial expertise is a key determinant of transparent related party transaction disclosure. It recommends strengthening financial expertise requirements for audit committee members, improving the quality of committee oversight, and enhancing regulatory monitoring of highly leveraged firms to promote corporate transparency and accountability.

Keywords: Audit committee, financial expertise, diligence, related party transactions, corporate governance, Nigeria.

INTRODUCTION

Corporate governance and financial transparency have attracted increasing global attention following several high-profile corporate failures, including Carillion (2018), Wirecard (2020), and Silicon Valley Bank (2023), which exposed serious weaknesses in financial oversight and corporate governance mechanisms. Similar governance failures have also been observed in Nigeria, notably the First Bank of Nigeria crisis in 2021, highlighting deficiencies in financial oversight, audit committees, and external auditing. These developments have reinforced the need for effective monitoring of financial reporting and related party transactions (RPTs) to strengthen stakeholder confidence and corporate accountability.

Effective audit committees are widely recognized as fundamental to enhancing financial transparency, mitigating financial misconduct, and protecting stakeholder interests. In response, the Companies and Allied Matters Act (CAMA) 2020 emphasizes the financial expertise and diligence of audit committee members as essential for strengthening corporate governance. Audit committee members with relevant financial expertise are better positioned to understand complex transactions, identify conflicts of interest, and detect financial manipulation (Manap et al., 2022). Similarly, Abigail and Dharmastuti (2022) argue that audit committee expertise reduces information asymmetry and agency costs, thereby improving governance over related party transactions.

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

Beyond expertise, audit committee diligence—reflected in members' commitment, attentiveness, and proactive oversight—is equally critical in ensuring accurate reporting and disclosure of RPTs. Diligent audit committees are more capable of scrutinizing related party transactions, ensuring they are conducted at arm's length, and reducing agency conflicts and financial manipulation (Jensen & Meckling, 1976; Cagle et al., 2021; Mnif et al., 2017).

Empirical evidence on the relationship between audit committee characteristics and related party transaction disclosure, however, remains inconclusive. Mnif et al. (2017) found that audit committee independence and combined accounting, financial, and industry expertise significantly improve compliance with IFRS related party disclosures in South Africa, while committee size and meeting frequency have no significant effect. Likewise, Ernawati and Aryani (2019) reported that controlling shareholders negatively influence RPT disclosure among Indonesian listed firms, whereas audit committee accounting expertise significantly enhances disclosure quality. In China, Alkebsee et al. (2024) documented a negative association between audit committee cash compensation and related party transactions, suggesting that stronger audit committee incentives may reduce opportunistic transactions.

The inconsistent findings across South Africa, Indonesia, and China suggest that the effectiveness of audit committee attributes is shaped by differences in regulatory frameworks, governance structures, and institutional environments. Despite growing international evidence, empirical studies examining the influence of audit committee expertise and diligence on related party transactions in Nigeria remain scarce. This study addresses this gap by attempting to proffer answers to the following research questions:

1) To what extent does audit committee financial expertise influence related party transactions in listed financial services in Nigeria?
2) How ready is the members of the audit committee diligence willing to mitigate related party transaction’s issues as they arise in listed financial services in Nigeria?
3) To what extent does leverage influence related party transaction in listed financial services in Nigeria?
4) What influence does firm size exact on related party transaction in listed financial services in Nigeria?

LITERATURE REVIEW

Conceptual Review

Related Party Transactions

Related party transaction (RPT) disclosures require companies to report transactions and relationships with parties that have special relationships with the reporting entity, including subsidiaries, associates, affiliates, joint ventures, and key management personnel (Beerbaum & Piechocki, 2017). Such disclosures are essential for promoting transparency, reducing information asymmetry, and enabling stakeholders to identify potential conflicts of interest that may influence financial reporting.

According to International Accounting Standard (IAS) 24, a related party is any individual or entity that has control, joint control, significant influence, or a close relationship with the reporting entity. This includes controlling shareholders, family members of key owners or managers, parent and subsidiary companies, associates, and joint venture partners. Consequently, transactions between parent and subsidiary companies represent one of the most common forms of related party transactions and require adequate disclosure to ensure the credibility and reliability of financial statements.

Audit Committee Financial Expertise

Audit committees are a fundamental component of corporate governance, established to enhance transparency, accountability, and the integrity of financial reporting. According to Arens et al. (2009), an audit committee comprises members of the board of directors responsible for maintaining auditor independence. It also provides an independent forum where auditors, management, and other stakeholders can

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

openly discuss issues relating to financial reporting, internal controls, and audit processes, thereby promoting transparency and accountability (Abbott et al., 2004).

In Nigeria, the Companies and Allied Matters Act (CAMA), 2020 mandates every publicly listed company to establish a Statutory Audit Committee (Section 404), comprising shareholder representatives and directors to ensure balanced oversight and effective corporate governance. Similarly, the Securities and Exchange Commission (SEC) Code (2011) and the Nigerian Code of Corporate Governance (NCCG, 2018) emphasize that audit committee members should possess adequate financial literacy to strengthen financial oversight and improve the quality of corporate reporting.

Audit committee financial expertise refers to the accounting, finance, and auditing knowledge and experience possessed by committee members. Such expertise enables members to understand complex financial transactions, evaluate financial statements critically, and effectively oversee internal controls and financial reporting, thereby enhancing the reliability and credibility of corporate financial disclosures.

Audit Committee Financial Expertise and Related Party Transactions

The relationship between audit committee financial expertise and related party transactions (RPTs) is an important aspect of effective corporate governance (Fooladi & Farhadi, 2019; Ashrafi et al., 2020). Audit committees with strong financial expertise are better equipped to oversee complex and potentially risky RPTs involving affiliated entities (Alkebsee et al., 2024). Their accounting and financial knowledge enables them to evaluate the fairness of related party transactions, ensure that such transactions are conducted at arm's length, identify potential conflicts of interest, and verify adequate financial disclosure (Sridhar & Jasrotia, 2020). Furthermore, financially competent audit committee members are more capable of detecting and preventing financial manipulation associated with RPTs, thereby enhancing the credibility and transparency of corporate financial reporting (El-Helaly, 2018).

Mnif et al. (2017) found that audit committee members with combined industry and financial expertise significantly improved compliance with related party disclosure requirements. Similarly, Ernawati and Aryani (2019) reported that audit committee accounting expertise enhances transparency by promoting more comprehensive disclosure of related party transactions. Furthermore, Alkebsee et al. (2024) showed that audit committee cash compensation is associated with the effectiveness of audit oversight, indirectly suggesting that stronger audit committee governance contributes to improved monitoring of related party transactions

Audit Committee Diligence

Audit committee diligence refers to the commitment, attentiveness, and thoroughness with which audit committee members perform their oversight responsibilities relating to financial reporting, internal controls, and regulatory compliance. Diligent audit committees enhance corporate governance through regular meetings, timely review of financial statements, and proactive monitoring of financial reporting processes. The frequency of audit committee meetings has been identified as a key determinant of effective oversight, with more frequent meetings promoting greater engagement and improving committee effectiveness (Asiriuwa et al., 2018; Oussii et al., 2018; Ha et al., 2022). In relation to related party transactions (RPTs), diligent audit committees ensure that transactions are conducted at arm's length and are adequately disclosed in accordance with accounting standards and regulatory requirements. Consistent with this view, Ernawati and Aryani (2019) found that audit committee meetings positively influence RPT disclosure, while Alhumoudi (2024) reported that audit committee diligence significantly enhances compliance with related party disclosure requirements and improves the quality of financial reporting.

Empirical Review

Alhumoudi (2024) examined the influence of audit committee characteristics—including independence, financial expertise, meeting frequency, and committee size—on related party transactions among Saudi Arabian non-financial listed firms. Using panel data from 292 firm-year observations covering the 2019–2022 period, the study found that audit committee financial expertise was the only attribute that significantly

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

influenced related party transactions, highlighting the importance of financial competence in strengthening audit oversight.

Mamman and Usman (2023) investigated the effect of corporate governance attributes on financial reporting disclosures among listed industrial goods firms in Nigeria over the 2013–2021 period. Employing the Generalized Method of Moments (GMM) estimator, the authors reported that audit committee expertise exerts a positive and statistically significant influence on the quality of corporate disclosures, emphasizing its role in promoting financial transparency.

Manap et al. (2022) explored the relationship between audit committee competencies and corporate disclosure transparency among Malaysian Government-Linked Companies (GLCs). Based on data spanning 2009–2017 and analyzed using multiple regression techniques, the study revealed that audit committee members possessing accounting expertise, financial expertise, and advanced academic qualifications significantly enhance the level of corporate disclosure transparency.

Altawalbeh (2020) investigated the effect of audit committee attributes and corporate governance mechanisms on related party transaction (RPT) disclosure among non-financial firms listed on the Amman Stock Exchange. Using data from 72 firms over the 2013–2016 period and applying multiple regression analysis, the study found that audit committee independence and meeting frequency significantly enhance the level of related party transaction disclosure, suggesting that stronger audit committee oversight improves corporate transparency.

Rahmat et al. (2019) examined whether the presence of financially competent members on audit committees influences related party transaction conflict disclosure among Malaysian listed firms. Based on 1,912 firm-year observations drawn from companies listed on Bursa Malaysia between 2011 and 2014, the study established that a higher proportion of audit committee financial experts significantly improves the disclosure of related party transaction conflicts, reinforcing the importance of financial expertise in effective corporate oversight.

Mnif and Borgi (2017) assessed the influence of audit committee characteristics—including committee size, independence, meeting frequency, and expertise—on compliance with the International Financial Reporting Standards (IFRS) relating to related party disclosures in South Africa. Using panel regression analysis on firms listed on the Johannesburg Stock Exchange, the study reported that audit committee independence and the combination of industry, accounting, and financial expertise significantly improve compliance with related party disclosure requirements, whereas committee size and meeting frequency exert no significant influence.

Salehi and Shirazi (2016) explored the relationship between audit committee characteristics and related party transactions among firms listed on the Tehran Stock Exchange. Their findings indicate that audit committee expertise and committee size contribute positively to related party transaction oversight, while a higher frequency of audit committee meetings is associated with lower corporate disclosure quality, suggesting that meeting frequency alone does not necessarily enhance reporting effectiveness.

Theoretical Review

Information Asymmetry Theory

The theory was developed by Akerlof (1970), and explains that market inefficiencies arise when one party possesses more information than another, creating unequal access to relevant information and potentially resulting in poor decision-making and market failure. Such information imbalance commonly exists between managers and shareholders, firms and investors, and companies and regulators. Consequently, transparent financial disclosure serves as an important mechanism for reducing information asymmetry, enhancing investor confidence, and improving market efficiency (Simpson & Tamayo, 2020). The theory provides a useful framework for explaining the role of audit committees in overseeing related party transactions (RPTs). Audit committees with strong financial expertise and diligence enhance the review, monitoring, and disclosure of RPTs, thereby reducing information asymmetry and strengthening corporate transparency (Nekhili et al.,

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2022). Through effective oversight, diligent audit committees also minimize opportunities for financial manipulation and conflicts of interest, leading to more reliable financial reporting and better-informed stakeholder decisions (Al-Shaer et al., 2022; Ghazalia & Shafie, 2019).

Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains the conflicts of interest arising from the separation of ownership and management, where managers (agents) may pursue personal interests at the expense of shareholders (principals) due to information asymmetry. The theory posits that corporate disclosure reduces agency problems by improving transparency and minimizing information asymmetry (Rossi & Harjoto, 2020).

In relation to related party transactions (RPTs), adequate disclosure enables shareholders to evaluate the fairness of such transactions, thereby reducing agency costs and limiting opportunistic managerial behaviour (Luo et al., 2018; Obeng et al., 2021; Brennan & Mirza, 2007; Opanyi et al., 2019). Agency Theory further emphasizes the monitoring role of audit committees in ensuring transparent financial reporting and effective oversight of RPTs. Audit committee expertise, independence, and diligence strengthen governance by promoting arm's-length transactions, reducing agency conflicts, and enhancing financial reporting quality and stakeholder confidence (Kao & Chen, 2020; Ratnawati et al., 2016; Habib et al., 2021; Al-Shaer et al., 2017; Hashmi et al., 2022).

METHODOLOGY

This study adopted an ex-post facto research design. The population comprised 45 financial service companies listed on the Nigerian Exchange (NGX) as at 31 December 2023. Given the relatively small population, a census sampling technique was employed, with all listed firms included in the study. The study utilized secondary data extracted from the annual reports and accounts of the sampled firms for a ten (10) year period from 2015 to 2024.

Data were analyzed using logistic regression, which is appropriate because the dependent variable related party transactions (RPTs) is binary. The model was used to examine the influence of audit committee financial expertise and audit committee diligence on the likelihood of related party transactions among listed financial firms in Nigeria

Model Specification

$\text{Logit}(P(RPT)) = \beta_0 + \beta_1(ACEXP) + \beta_2(ACD) + \beta_3(LEV) + \beta_4(FS) + \epsilon$

Where:

P(RPT) = The natural log of the odds of related party transactions occurring.

$\beta0$: Intercept term.

$\beta1$- $\beta5$ = Coefficient of the variables

ACEXP = Audit Committee Financial Expertise

ACD = Audit Committee Diligence

LEV = Leverage

FS = Firm Size

ϵ = Error term.

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

DATA ANALYSIS

Result and Discussion

In this section results are presented and discussed in the light of the research findings. First, a set of descriptive statistics are presented, then followed by the regression results.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
RPT	450	0.8022222	0.398767	0	1
ACEXP	450	0.5598466	0.1364769	0.2857143	0.8333333
ACD	450	4.104444	0.457774	3	5
LEV	450	0.6186588	0.1609709	0.2068966	0.8965517
FS	450	6.578755	1.043411	3.930745	8.983825

Source: Author's Computation Using Stata 17

Table 1 presents the descriptive statistics for the study variables. The results show that the mean value of related party transactions (RPT) is 0.8022, indicating that approximately 80.2% of the sampled firms engaged in related party transactions during the study period. The standard deviation (0.3988) suggests moderate variation in RPT occurrence across firms.

The mean value of audit committee financial expertise (ACEXP) is 0.5598, implying that about 56% of audit committee members possess financial expertise, although the wide range of values indicates differences in expertise across firms. Similarly, audit committee diligence (ACD) records an average of 4.10 meetings annually, suggesting that most firms comply with recommended meeting frequencies and maintain active oversight responsibilities.

The control variables reveal that firms have an average leverage ratio (LEV) of 0.6187, indicating a relatively high reliance on debt financing, while the average firm size (FS) of 6.5788 with considerable dispersion reflects substantial heterogeneity in the size of the sampled firms. Overall, the descriptive statistics indicate adequate variability among the variables, supporting their suitability for subsequent regression analysis.

Table 2: Correlation Matrix Table

Variable	RPT	ACEXP	ACD	LEV	FS
RPT	1.0000				
ACEXP	0.0570	1.0000			
ACD	0.0940	0.1011	1.0000		
LEV	-0.0940	0.1721	0.0902	1.0000	
FS	0.0139	0.0275	0.1039	0.1039	1.0000

Source: Author's Computation Using Stata 17

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Table 2 presents the correlation matrix for the study variables. The results indicate that related party transactions (RPT) exhibit weak positive correlations with audit committee financial expertise (ACEXP) ($r = 0.0570$) and audit committee diligence (ACD) ($r = 0.0940$), suggesting only a marginal association between audit committee characteristics and RPTs. Conversely, leverage (LEV) is weakly and negatively correlated with RPT ($r = -0.0940$), implying that more highly leveraged firms are slightly less likely to engage in related party transactions. Firm size (FS) shows a negligible positive correlation with RPT ($r = 0.0139$), indicating virtually no linear relationship. Overall, the low correlation coefficients suggest the absence of strong pairwise associations among the variables, thereby reducing concerns about multicollinearity.

Table .3 Hosmer and Lemeshow's goodness-of-fit.

Step	Chi-square	Sig
1	Hosmer–Lemeshow Pearson chi2(292) = 253.40	Prob > chi2 = 0.9501

Source: Author's Computation Using Stata 17

Given the p-value of 0.9501 which is higher than the conventional significance threshold (0.05), there is no significant evidence to reject the null hypothesis. This result indicates that the model fits the data well and the observed data align closely with the model's predictions.

Table 4. Logistic Regression Analysis

	Odds Ratio	Std. err.	z	P>|z|
ACEXP	0.3425352	0.1016438	3.37	0.001
ACD	0.0122432	0.0210964	0.58	0.564
LEV	0.2616149	0.0853223	3.07	0.003
FS	0.9679035	0.1136634	0.28	0.781
Pseudo R2 = 0.3200				
chi2(5) = 58.93				0.0007

Source: Author's Computation Using Stata 17

Table 4 presents the logistic regression results. The model is statistically significant (LR $\chi^2 = 58.93$, $p = 0.0007$) with a Pseudo R^2 of 0.3200, indicating that the explanatory variables account for approximately 32% of the variation in related party transactions (RPTs), suggesting a satisfactory model fit.

The results show that audit committee financial expertise has a positive and statistically significant effect on RPT disclosure (OR = 0.3425, p = 0.001). This finding implies that firms with financially competent audit committees are more likely to disclose related party transactions, thereby enhancing transparency and reducing information asymmetry. The result supports both Information Asymmetry Theory and Agency Theory, which posit that financially knowledgeable audit committees strengthen oversight, improve disclosure quality, and mitigate agency conflicts. The finding is consistent with Mnif et al. (2017).

In contrast, audit committee diligence exhibits a positive but statistically insignificant relationship with RPT disclosure (OR = 0.0122, p = 0.564), suggesting that meeting frequency alone does not significantly improve disclosure practices. This finding does not support the prediction of Agency Theory and contrasts with the evidence reported by Altawalbeh (2020).

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Among the control variables, leverage has a significant negative effect on RPT disclosure (OR = 0.2616, p = 0.030), indicating that highly leveraged firms are less likely to disclose related party transactions, possibly because of greater financial pressures or strategic reporting considerations. Conversely, firm size has no significant influence on RPT disclosure (OR = 0.9679, p = 0.781), implying that the likelihood of disclosing related party transactions does not vary systematically with firm size.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the findings of the study, several key conclusions can be drawn:

The results reveal that audit committee expertise has a significant positive effect on RPT disclosures. This aligns with the notion that well-qualified audit committee members can enhance financial oversight and ensure better transparency.

Contrary to expectations, audit committee diligence, while positively associated with RPT disclosures, does not show a statistically significant impact. This indicates that simply increasing diligence, such as the frequency of meetings or reviews, may not be sufficient to influence RPT disclosures substantially.

Based on the findings, the following recommendations are made to enhance the effectiveness of audit committees and improve RPT disclosures:

Financial firms should prioritize the appointment of all audit committee members with strong financial expertise and relevant industry experience. This expertise is crucial for ensuring thorough oversight and enhancing the quality of financial reporting, including RPT disclosures.

While audit committee diligence is important, simply increasing meeting frequency or similar metrics may not be sufficient. Firms should focus on improving the quality and effectiveness of audit committee activities rather than just their quantity. Companies should conduct regular assessments of audit committee performance and effectiveness, including evaluating the quality of discussions, decision-making processes, and the impact of their oversight. Implementing best practices and frameworks for effective audit committee functioning can also help.

Recommendations

1. Listed financial firms should appoint audit committee members with strong accounting, finance, and auditing qualifications, and regulators should strengthen compliance with financial expertise requirements to improve transparency and the quality of RPT disclosures.

2. Organizations should focus on enhancing the effectiveness of audit committee meetings through comprehensive meeting agendas, regular training, adequate access to relevant information, and rigorous review of related party transactions rather than merely increasing the number of meetings.

3. Regulators and boards of directors should subject highly leveraged firms to greater disclosure monitoring and stricter compliance with related party transaction reporting requirements to strengthen investor confidence.

4. Uniform disclosure requirements irrespective of firm size should be applied in order to ensure even standards of transparency and corporate accountability across the industry.

CONTRIBUTION TO KNOWLEDGE

This study contributes to knowledge by providing empirical evidence that audit committee financial expertise significantly enhances related party transaction (RPT) disclosure among listed financial firms in Nigeria, thereby reinforcing the importance of financially competent audit committees in strengthening corporate transparency. It also demonstrates that audit committee meeting frequency alone does not significantly improve RPT disclosure, suggesting that the quality of oversight is more important than the number of meetings. Furthermore, the study shows that firm leverage significantly influences RPT disclosure, while firm size has no significant effect, offering context-specific evidence that enriches the corporate governance literature in Nigeria and other emerging economies.

SUGGESTIONS FOR FURTHER STUDIES

Expand the scope of the study by examining non-financial listed firms or comparing financial and non-financial sectors to determine whether the findings are sector-specific. Incorporate additional audit committee attributes, such as independence, gender diversity, tenure, size, and members' professional certifications, to provide a more comprehensive understanding of their influence on related party transaction disclosures. Examine moderating or mediating variables, such as corporate governance quality, ownership structure, board effectiveness, or internal audit quality, to better explain the relationship between audit committee characteristics and related party transactions. Employ alternative research designs and estimation techniques, including panel logistic regression, dynamic panel models, or mixed-methods approaches, to enhance the robustness and generalizability of the findings. Conduct comparative cross-country studies involving Nigeria and other emerging or developed economies to assess how differences in regulatory and institutional environments influence related party transaction disclosures.

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