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## **Moderating Effect of Audit Committee Expertise on Risk Disclosure and Financial Reporting Quality of Listed Industrial Goods Companies in Nigeria**

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### **Abstract**

*This study examined the effect of firm-level risk exposures on financial reporting quality of quoted industrial goods companies in Nigeria, with specific emphasis on the moderating role of audit committee expertise. The study adopts an ex-post facto research design and utilizes panel data obtained from the annual reports of selected quoted industrial goods firms in Nigeria over the study period. Dynamic panel estimation technique was employed. The empirical findings reveal that financial reporting quality is not significantly influenced by its past values but responds strongly to contemporaneous risk conditions and governance mechanisms. Specifically, audit committee expertise exerts a positive and statistically significant moderating effect on the relationship between credit risk and financial reporting quality, indicating that firms with more knowledgeable audit committees are better able to maintain transparent reporting in the presence of credit risk. Conversely, liquidity risk interacting with audit committee expertise has a significant negative effect on financial reporting quality, suggesting that liquidity pressures undermine reporting quality even under expert oversight. Operational risk also shows a negative moderating effect, while the interaction between market risk and audit committee expertise is positive but statistically insignificant. The study concludes that audit committee expertise improves financial reporting quality selectively, particularly in areas involving credit-related accounting judgments, but is insufficient to fully offset the adverse effects of operational and liquidity risks. Consequently, the study recommends that industrial goods companies strengthen the financial and accounting expertise of audit committee members, while also reinforcing internal control systems and liquidity management frameworks to enhance financial reporting quality and investor confidence.*

**Keywords:** Financial Reporting Quality, Audit Committee Expertise, Credit Risk, Market Risk, Operational Risk, Liquidity Risk.



## **Introduction**

Risk disclosure has become a central component of corporate reporting in recent years, driven by heightened investor expectations, regulatory reforms, and the increasing complexity of business environments. Traditionally, risk information was treated as a supplementary narrative in annual reports; however, contemporary corporate reporting frameworks now emphasise its relevance for assessing a firm's performance, governance, and long-term sustainability. Despite the global shift toward enhanced corporate transparency, the quality of risk disclosure and the credibility of financial reporting continue to raise concerns, particularly in emerging markets such as Nigeria. International reforms such as the IFRS S1 sustainability-related disclosure standard, effective from January 2024, require firms to provide material, decision-useful information on risks affecting enterprise value (IFRS Foundation, 2023). While these developments have strengthened disclosure practices globally, their effectiveness ultimately depends on how firms internalise risk information within governance and reporting processes.

Empirical evidence from Nigeria's industrial goods sector also reveals inconsistent findings regarding how governance mechanisms influence disclosure practices and reporting outcomes. Some studies report positive associations between audit committee expertise and financial reporting quality, while others find weak or insignificant relationships, suggesting that institutional weaknesses or compliance-driven disclosure practices may dilute the effectiveness of audit committee oversight (Majaf, 2024; AJEBA, 2024). These inconsistencies underscore the need to examine whether audit committee expertise strengthens or weakens the effectiveness of risk disclosure, particularly in a sector characterised by high risk exposure and intense operational dynamics. They also point to the possibility that audit committee expertise may serve as a key moderating mechanism that determines whether risk disclosures translate into improved reporting outcomes.

Given these concerns, the central problem is that although risk disclosure is expected to enhance financial reporting quality, this relationship remains unclear and possibly ineffective in Nigeria due to governance limitations, weak audit oversight, and the prevalence of generic, non-decision-useful risk narratives. What remains insufficiently explored and forms the essence of this study is whether audit committee expertise can strengthen the relationship between risk disclosure and financial reporting quality among listed industrial goods firms in



Nigeria. Without empirically determining this moderating role, policymakers, regulators, and corporate boards may be making governance decisions without a clear understanding of how internal oversight can improve transparency, reduce information asymmetry, and enhance the credibility of financial statements in the Nigerian capital market.

### **Statement of Hypotheses**

**H<sub>01</sub>:** Audit committee expertise has no significant moderating effect on the relationship between credit risk disclosure and corporate financial reporting quality of listed industrial goods companies in Nigeria.

**H<sub>02</sub>:** Audit committee expertise has no significant moderating effect on the relationship between market risk disclosure and corporate financial reporting quality of listed industrial goods companies in Nigeria.

**H<sub>03</sub>:** Audit committee expertise has no significant moderating effect on the relationship between operational risk disclosure and corporate financial reporting quality of listed industrial goods companies in Nigeria.

**H<sub>04</sub>:** Audit committee expertise has no significant moderating effect on the relationship between liquidity risk disclosure and corporate financial reporting quality of listed industrial goods companies in Nigeria.

### **Literature Review**

#### **Concept of Financial Reporting Quality**

Arens (2012) defined as the quality of the financial reporting to mean how well an audit detects and report material misstatements in financial statements, the detection aspects reflect auditor competence, while reporting reflects ethics or auditor integrity, particularly independence". Davidson and Neu (2013) defined financial reporting quality as the ability of auditors to discover and reveal light material misstatements and manipulations in net income reported. According to Palmrose (2010), in defining financial reporting quality, actual quality and perceived quality have been contended as essential issues. While actual quality is regarded as the likelihood of reducing the associated risk of reporting a material misstatement in financial



statement, perceived quality has to do with what the users of financial statement believe about the ability of auditor to reduce material misstatement.

### **Concept of Risk Disclosure**

Risk disclosure has been conceptualised differently by various scholars, reflecting its multidimensional nature within corporate reporting and governance literature. According to Linsley and Shrivies (2006), risk disclosure refers to the communication of information that enables stakeholders to understand the risks faced by an organisation and the strategies adopted to manage those risks. They argue that such disclosure enhances transparency by reducing informational asymmetry between managers and external users of financial statements. This view highlights the role of risk reporting as a mechanism for improving the quality of decision-making by investors and other stakeholders. In a related perspective, Beretta and Bozzolan (2004) define risk disclosure as the process through which firms provide both qualitative and quantitative information on the uncertainties that may affect the achievement of organisational objectives. Their definition emphasises the comprehensiveness and forward-looking nature of risk information, which should include not only past and present risks but also anticipated future uncertainties. By adopting this approach, risk disclosure is seen as a tool for enhancing corporate accountability and market efficiency.

### **Concept of Audit Committee Expertise**

Audit committee financial expertise refers to the presence of one or more members within the audit committee who possess substantial knowledge and experience in accounting, finance, or related fields. Klein (2002) asserts that audit committees with financially literate members are more capable of scrutinizing management's accounting choices and improving the reliability of financial disclosures. Similarly, Abbott, et al. (2004) highlight that the presence of financial expertise within the audit committee is positively associated with higher financial reporting quality, reduced earnings management, and greater investor confidence. Audit committee refers to the appointed members who take active roles in supervising accounting and financial disclosure practices of companies (Kibiya, et al., 2016). An audit committee is a subcommittee of a company's board of directors responsible for overseeing financial reporting and disclosure



processes. It plays a crucial role in ensuring the accuracy and integrity of a company's financial statements, as well as monitoring the effectiveness of the internal control systems.

### **Empirical Review**

Davis and Brown (2023) investigated the effect of credit risk disclosure on financial reporting quality in the healthcare industry, assessing whether improved transparency influences market valuation. The study utilized regression analysis on data from 80 healthcare firms to assess the relationship between credit risk disclosures and stock prices. The study found a positive effect of credit risk disclosure on financial reporting quality, with healthcare firms that disclosed more detailed information experiencing higher market valuations. The sector-specific approach limits the generalizability of the findings. Future research could include firms from various sectors to provide a more comprehensive view.

Brown and Jones (2023) explore the impact of credit risk disclosure on financial reporting quality in the banking sector, assessing whether enhanced disclosure practices improve market valuation period of 2018 to 2023. The study utilized panel data regression analysis on a sample of 120 banks to examine the relationship between credit risk disclosures and financial reporting quality. The findings indicated a positive correlation between credit risk disclosure and financial reporting quality, with banks providing detailed disclosures experiencing higher market valuations. While focusing on the banking sector offers valuable insights, the findings may not be generalizable to non-financial firms. Broader research could enhance the applicability of the results.

Williams and Clark (2023) explored the effect of market risk disclosure on financial reporting quality in the South African market. The study aimed to determine if better disclosure practices affect firm valuation, analyzing data from 2019 to 2023. A quantitative approach was used with regression models and stock price data. Data were collected from 90 South African firms. The study found a positive relationship between market risk disclosure and financial reporting quality, with firms providing more comprehensive disclosures having higher stock prices. While the focus on South Africa provides specific regional insights, it may limit generalizability. Future research could include additional regions to provide a broader view of disclosure impacts.



Wang and Lee (2023) investigated the impact of operational risk disclosure on financial reporting quality in the technology sector. They aimed to determine if enhanced disclosure practices affect stock market performance. The study analyzed data from 2018 to 2022. The methodology involved a quantitative approach with panel data regression analysis. Data were collected from 120 technology firms, focusing on their operational risk disclosures and stock market performance. The results indicated a positive correlation between detailed operational risk disclosure and financial reporting quality. Firms with comprehensive risk information had higher stock prices and better market valuations. While the study provides valuable insights into the technology sector, its focus on a single sector may limit generalizability. Including firms from other industries could offer a more comprehensive view of disclosure impacts.

Ahmed and Hossain (2022) investigated the impact of market risk disclosure on the financial reporting quality of firms in the emerging markets. They aimed to understand whether enhanced risk disclosure affects the stock market performance of companies. The study analyzed data from 2016 to 2021. The study used a quantitative approach with panel data regression analysis. Data were collected from financial statements and stock prices of 150 firms across various emerging markets. The analysis focused on the correlation between the quality of market risk disclosure and stock market performance. The results indicated a positive relationship between detailed market risk disclosure and financial reporting quality. Firms with comprehensive risk disclosures tended to have higher stock prices and better market valuation. While the study provides valuable insights into emerging markets, its focus on a broad range of countries may obscure specific regional differences. Additionally, the study could benefit from a more granular analysis of industry-specific effects.

Smith and Johnson (2022) aimed to explore how liquidity risk disclosure impacts financial reporting quality, focusing on whether greater transparency in liquidity risks affects market valuation. The study analyzed data from 2019 to 2022. The researchers employed quantitative analysis using regression models, analyzing liquidity risk disclosure scores and corresponding stock market data from 100 firms across various sectors. The study found a positive correlation between liquidity risk disclosure and financial reporting quality, with firms having detailed liquidity risk disclosures generally showing higher stock prices. While providing valuable



insights, the study's broad sector focus may limit specific sectoral insights. Future research could focus on individual industries for a more nuanced understanding.

### **Theoretical Framework**

**Signaling Theory:** The Signaling theory formulated by Spence (1973) as cited in Brian, Trevis, Duane & Christopher (2001) demonstrated the signaling function of education by adopting the labour market model. In the theory, Spence asserts that "Potential employers lack information about the quality of job candidates. The candidates, therefore, obtain education to signal their quality and reduce information asymmetry. This is presumably a reliable signal because lower quality candidates would not be able to withstand the rigors of higher education (Brian et al., 2001)." The Spence signaling theory was further specifically applied by Weiss (1995); Kirmani and Rao (2000) to help illustrate two firms which differed in quality (the high-quality firms and low-quality firms), an illustration very apt for the current study. They maintained that the firms know their own true quality, outsiders (e.g., investors, customers) do not have the information, so information asymmetry is present. Consequently, each firm could signal or not signal its true quality to outsiders arguing that firms are perceived less risky where they disclosed all relevant information to the stakeholders, especially those outside of an entity (Brian et al., 2001). This will increase patronage where there is a positive signal from the disclosure. However, those who chose not to make disclosure are considered as not doing well or hiding some salient facts. In such cases, outsiders can accurately distinguish between high- and low-quality firms (Weiss 1995; Kirmani & Rao, 2000). Consequently, such signals influence outside observers' (e.g., lenders, investors) perceptions of firm quality.

Recently, signaling theory is considered by researchers as one of the theories that explain the relationship between information contents of financial statements and corporate financial reporting quality (Connelly et al., 2011). The companies' directors prepare reports that provide signals about its activities and performance while the market participants utilize the information for informed decision making. (Connelly et al., 2011). Hence, studies concerning corporate disclosures usually employ the theory as basic theoretical framework. (Sheu, Chung, & Liu, 2010; Uyar & Kilic, 2012). This proposed that entity with good performance would disclosure more information as compared to those poor performing firms. Also, risk disclosure



in the financial statements signals future direction of the firms to the users as opined by signalling theory (Anam, et al., 2011; Morris, 1987).

In the same vein, authors such as Uyar and Kilic (2012) proposed that corporate disclosure provides adequate information to the potential and existing investors, maintaining that performing firms would report more information to the market compared to poor performing firms (Mavlanova et al., 2012; Wallace & Naser, 1995). This was considered relevant to the current study because less risky firms or put differently companies with less risk exposure on financial instruments are likely to disclose more information than the riskier ones.

### Methodology

The study adopted an ex-post facto research design. The population of this study comprises all the listed industrial goods companies in Nigeria as recognized by the Nigerian Exchange Group (NGX). As at 2025, the industrial goods sector consists of thirteen (13) listed firms. Given the relatively small size of the population, the study will employ a census sampling approach, where all listed industrial goods companies are included in the sample. Secondary sources was utilized for data collection. The study employed a dynamic panel regression technique to analyse the panel data generated from the annual reports of listed industrial goods companies in Nigeria.

### Model specification

$$FRQ_{it} = \beta_0 + \beta_1 FRQ_{it-1} + \beta_3 CRISK_{it} * AUCE_{it} + \beta_4 MRISK_{it} * AUCE_{it} + \beta_5 OPRISK_{it} * AUCE_{it} + \beta_6 LQRISK_{it} * AUCE_{it} + \epsilon_{it}$$

Where:

FRQ = Financial Reporting Quality

CRISK = Credit/Financial Risk Disclosure Intensity

MRISK = Market/Strategic Risk Disclosure Intensity

OPRISK = Operational Risk Disclosure Intensity

LQRISK = Liquidity Risk Disclosure Intensity

AUCE = Audit Committee Expertise

$\epsilon_{it}$  = idiosyncratic error.



## Results and Discussion of Findings

**Table 2: Descriptive Statistics**

|        | Mean     | Maxi     | Mini     | Std.Dev. | Skew     | Kurt     | Obs |
|--------|----------|----------|----------|----------|----------|----------|-----|
| FRQ    | 0.351359 | 0.506100 | 0.094053 | 0.124662 | -0.76635 | 2.180794 | 130 |
| CRISK  | 4.376923 | 5.000000 | 3.000000 | 0.638134 | -0.51993 | 2.344844 | 130 |
| MRISK  | 5.476923 | 6.000000 | 3.000000 | 0.882345 | -1.56101 | 4.293032 | 130 |
| OPRISK | 4.930769 | 6.000000 | 4.000000 | 0.612385 | 0.036957 | 2.661175 | 130 |
| LQRISK | 5.838462 | 6.000000 | 5.000000 | 0.369451 | -1.83933 | 4.383137 | 130 |
| AUCE   | 0.497685 | 0.818300 | 0.157600 | 0.148087 | -0.09004 | 2.666798 | 130 |

**Source:** Result Output, 2025

Table 2 presents the descriptive statistics of the study variables. The mean value of financial reporting quality (FRQ) is 0.351, with values ranging from 0.094 to 0.506. The relatively low standard deviation of 0.125 suggests limited variability in reporting quality among the sampled firms, indicating a fairly consistent level of financial reporting practices across the quoted industrial goods companies. The negative skewness and kurtosis slightly below three imply a moderately left-skewed and approximately normal distribution. Credit risk (CRISK) records a mean score of 4.377, with a minimum of 3.000 and a maximum of 5.000. This suggests that, on average, the industrial goods companies experience moderate to high levels of credit risk exposure. The standard deviation of 0.638 indicates moderate variation across industrial goods companies, while the negative skewness shows that higher credit risk levels are more common within the sample.

Market risk (MRISK) has a higher mean of 5.477, reflecting substantial exposure to market-related uncertainties such as interest rate and exchange rate fluctuations. The relatively higher standard deviation of 0.882 implies greater variability among industrial goods companies in managing market risk. The pronounced negative skewness and leptokurtic distribution suggest that most industrial goods companies report high market risk levels, with fewer observations at the lower end. Operational risk (OPRISK) has a mean of 4.931 and exhibits relatively low dispersion, indicating that operational risk levels are fairly similar across the industrial goods companies. The near-zero skewness and kurtosis close to three suggest an approximately symmetric and normally distributed series. Liquidity risk (LQRISK) records the highest mean value of 5.838, with minimal variability, implying that liquidity management is a critical and uniformly significant risk dimension among Nigerian industrial goods companies.



Audit committee expertise (AUCE) has a mean value of 0.498, indicating that, on average, about half of audit committee members possess relevant financial expertise. The moderate dispersion and near-normal distribution suggest some variation in committee expertise across industrial goods companies, which may influence risk oversight and reporting quality.

**Table 3: Correlation Matrix**

| Probability | FRQ                 | CRISK               | MRISK              | OPRISK             | LQRISK              |
|-------------|---------------------|---------------------|--------------------|--------------------|---------------------|
| CRISK       | -0.226578<br>0.0095 |                     |                    |                    |                     |
| MRISK       | -0.095085<br>0.2819 | 0.242734<br>0.0054  |                    |                    |                     |
| OPRISK      | -0.348576<br>0.0000 | 0.047456<br>0.5918  | 0.563709<br>0.0000 |                    |                     |
| LQRISK      | -0.229737<br>0.0086 | -0.101425<br>0.2509 | 0.357069<br>0.0000 | 0.635453<br>0.0000 |                     |
| AUCE        | -0.001619<br>0.9854 | 0.068301<br>0.4400  | 0.030323<br>0.7320 | 0.012939<br>0.8838 | -0.052979<br>0.5494 |

**Source:** Result Output, 2025

Table 3 presents the correlation matrix showing the direction and strength of association among financial reporting quality (FRQ), the different dimensions of risk, and audit committee expertise (AUCE). Specifically, credit risk (CRISK) exhibits a statistically significant negative correlation with FRQ ( $r = -0.227$ ,  $p = 0.0095$ ), implying that industrial goods companies with higher credit risk tend to report lower financial reporting quality.

Market risk (MRISK) also shows a negative but statistically insignificant relationship with FRQ ( $r = -0.095$ ,  $p = 0.2819$ ), indicating that fluctuations in market-related risks do not have a strong direct association with reporting quality within the sample period. Operational risk (OPRISK), however, demonstrates a stronger and highly significant negative correlation with FRQ ( $r = -0.349$ ,  $p < 0.01$ ). Liquidity risk (LQRISK) similarly exhibits a significant negative correlation with FRQ ( $r = -0.230$ ,  $p = 0.0086$ ), indicating that liquidity pressures may adversely affect the credibility and quality of financial reports.

The inter-correlations among the risk variables reveal moderate to strong positive associations, particularly between market risk and operational risk ( $r = 0.564$ ,  $p < 0.01$ ), and between operational risk and liquidity risk ( $r = 0.635$ ,  $p < 0.01$ ). These results suggest that risk types tend to move together, reflecting the interconnected nature of risk exposures in the banking



sector. Importantly, audit committee expertise (AUCE) shows no significant correlation with FRQ or any of the risk variables, indicating that AUCE does not have a strong direct association at the bivariate level.

**Table 4 Result of the Regression Analysis**

|   |           |               |       |        |                      |
|---|-----------|---------------|-------|--------|----------------------|
| Arellano-Bond dynamic panel-data estimation |           | Number of obs | =     | 104    |                      |
| Number of instruments = 46                  |           | Wald chi2(6)  | =     | 41.69  |                      |
|   |           | Prob > chi2   | =     | 0.0000 |                      |
| One-step results                            |           |               |       |        |                      |
| FRQ   | Coef.     | Std. Err.     | z     | P> z   | [95% Conf. Interval] |
| FRQ L1.                                     | -.1367883 | .0915565      | -1.49 | 0.135  | -.3162357 .0426592   |
| CRISKAUCE                                   | .0218897  | .0105136      | 2.08  | 0.037  | .0012835 .042496     |
| MRISKAUCE                                   | .0085841  | .0110987      | 0.77  | 0.439  | -.0131688 .0303371   |
| OPRISKAUCE                                  | -.024593  | .012707       | -1.94 | 0.053  | -.0494982 .0003122   |
| LQRISKAUCE                                  | -.0794009 | .0202465      | -3.92 | 0.000  | -.1190834 -.0397185  |
| _cons                                       | .4032704  | .032615       | 12.36 | 0.000  | .3393463 .4671946    |

**Source:** Result Output, 2025

Table 4 reports the results of the Arellano–Bond dynamic panel regression examining the relationship between risk variables interacted with audit committee expertise (AUCE) and financial reporting quality (FRQ). The model is statistically robust, as indicated by a Wald chi-square value of 41.69 with a probability of 0.0000, confirming the joint significance of the explanatory variables. The use of the dynamic specification appropriately controls for persistence in financial reporting quality and potential endogeneity, which is common in governance–risk relationships within the banking sector.

The lagged value of FRQ carries a negative but statistically insignificant coefficient, suggesting that prior-period financial reporting quality does not strongly predict current reporting quality once risk and governance interactions are considered. This implies that reporting quality among Nigerian industrial goods companies is more responsive to contemporaneous risk conditions and governance mechanisms than to historical reporting patterns. From an accounting perspective, this finding reflects the dynamic nature of financial reporting in industrial goods companies, where changes in risk exposure and oversight structures can quickly influence reporting outcomes (Saunders & Allen, 2010; Olawale, 2024).



The interaction between credit risk and audit committee expertise (CRISKAUCE) shows a positive and statistically significant effect on FRQ. This suggests that when audit committees possess stronger financial and accounting expertise, the adverse effects of credit risk on reporting quality are mitigated. Theoretically, this supports agency theory, which posits that informed and competent oversight reduces information asymmetry and managerial opportunism (Pathan, 2009; Boadi et al., 2023). In practical terms, this result implies that expert audit committees enhance the credibility of loan classification, impairment recognition, and credit risk disclosures, even in periods of heightened credit risk.

The interaction between market risk and audit committee expertise (MRISKAUCE) is positive but statistically insignificant. This indicates that audit committee expertise does not materially alter the relationship between market risk and financial reporting quality. From an accounting standpoint, market risk exposures—such as interest rate and exchange rate risks—are often governed by standardized valuation and disclosure rules, limiting the discretionary role of audit committees (Basel Committee on Banking Supervision, 2000; IMF, 2024). Practically, this suggests that regulatory frameworks rather than committee expertise play a dominant role in shaping reporting quality related to market risk.

Operational risk interacted with audit committee expertise (OPRISKAUCE) has a negative coefficient that is marginally significant. This implies that higher operational risk weakens financial reporting quality even in the presence of audit committee expertise. Theoretically, this aligns with systems and internal control perspectives, which argue that governance expertise cannot fully compensate for weak internal processes, technology failures, or human errors (Walker, 2009; Serwadda, 2018). In practice, this finding highlights the need for industrial goods companies to complement board-level expertise with strong internal controls, automation, and compliance systems to improve reporting accuracy.

Liquidity risk interacted with audit committee expertise (LQRISKAUCE) exhibits a strong negative and statistically significant relationship with FRQ. This indicates that liquidity pressures significantly undermine financial reporting quality, and audit committee expertise alone may not be sufficient to offset this effect. From an accounting perspective, liquidity stress can incentivize earnings smoothing, delayed loss recognition, or aggressive classification of assets, thereby reducing reporting quality (Nkusu, 2011; CBN, 2024). Theoretically, this



reflects the limits of governance mechanisms under financial distress, consistent with financial stability theory. Practically, the result underscores the importance of sound liquidity management and regulatory supervision in safeguarding transparent financial reporting.

### **Conclusion and Recommendations**

This study investigated the dynamic relationship between risk exposures and financial reporting quality (FRQ) in Nigerian quoted industrial goods companies, with particular emphasis on the moderating role of audit committee expertise (AUCE). Using the Arellano–Bond dynamic panel estimation technique, the findings reveal that risk dimensions affect financial reporting quality differently depending on the nature of risk and the strength of governance oversight. While financial reporting quality does not exhibit strong persistence over time, it is significantly shaped by contemporaneous risk conditions and the effectiveness of audit committee oversight. Notably, audit committee expertise significantly moderates the impact of credit risk on financial reporting quality, indicating that knowledgeable and experienced audit committees enhance transparency and improve the quality of credit-related accounting judgments. However, audit committee expertise does not significantly influence the relationship between market risk and reporting quality and is insufficient to fully mitigate the adverse effects of operational and liquidity risks on financial reporting quality.

The findings have important theoretical implications. They provide empirical support for agency theory by demonstrating that informed governance mechanisms reduce information asymmetry and improve monitoring effectiveness, particularly in high-discretion areas such as credit risk reporting. At the same time, the results highlight the limitations of governance expertise under conditions of severe operational and liquidity stress, consistent with financial stability and institutional theories that emphasize systemic and structural constraints on governance effectiveness. From an accounting perspective, the results underscore the sensitivity of financial reporting quality to risk-induced pressures, especially in areas requiring judgment, such as asset impairment and liquidity disclosures.

Based on these conclusions, several recommendations are advanced. First, industrial goods companies should strengthen the financial, accounting, and risk management expertise of audit committee members, with particular attention to credit risk oversight, as this has been shown to enhance reporting quality. Second, regulators such as the Financial Reporting Council should



enforce stricter requirements regarding audit committee competence and continuous professional development to ensure effective oversight. Third, industrial goods companies should complement board-level expertise with robust internal control systems, advanced risk management technologies, and strong operational frameworks to address operational and liquidity risks that undermine reporting quality. Finally, regulatory authorities should intensify liquidity risk supervision and stress testing, as governance mechanisms alone are insufficient to prevent reporting quality deterioration during liquidity pressures.

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