

# Effect of Audit Committee Attributes on Corporate Tax Avoidance of Listed Non-Financial Firms in Nigeria

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## ABSTRACT

This paper investigated the effect of audit committee attributes on corporate tax avoidance of listed non-financial firms in Nigeria. A correlational research design was adopted using secondary data collected from annual reports and accounts of 56 listed non-financial firms in Nigeria for the period of ten (10) years (2014-2023). The data were analysed using descriptive statistics to provide summary statistics for the variables and correlation analysis to determine if there is a correlation between the dependent and explanatory variables of the study. Multiple regression was used to test the study hypotheses using STATA. The analysis revealed the existence of a statistically significant negative relationship between audit committee expertise and corporate tax avoidance. This implies that a higher level of financial expertise among the audit committee members is associated with higher levels of tax avoidance. Furthermore, audit committee gender diversity among listed non-financial firms in Nigeria is negatively associated with corporate tax avoidance. Firms with more diverse audit committees (specifically with greater female representation) tend to engage in more aggressive tax avoidance strategies, resulting in lower long-term cash effective tax rates. Finally, Audit Committee Diligence does not have a statistically significant effect on Corporate Tax Avoidance among listed non-financial firms in Nigeria. Based on the findings, the study recommends that the Securities and Exchange Commission (SEC) should mandate the inclusion of both financial and compliance/legal experts on the audit committees. The study also recommends that the Financial Reporting Council of Nigeria (FRCN) and the Institute of Chartered Accountants of Nigeria (ICAN) should provide enhanced training on ethical tax practices and the societal implications of aggressive tax avoidance for all audit committee members, regardless of gender.

**Keywords:** Corporate Tax Avoidance, Audit Committee, Audit Committee Expertise, Audit Committee Gender Diversity, Listed Non-Financial Firms.

## INTRODUCTION

Recently, the federal government undertook a comprehensive overhaul of its tax legislation through the passage of four major Tax Reform Bills by the National Assembly. These bills aim to unify, modernise, and streamline Nigeria's tax framework to improve compliance, expand the tax base, and enhance revenue generation. The four key tax reform bills include the Nigeria Tax Bill 2024, the Nigeria Tax Administration Bill 2024, the Nigeria Revenue Service (Establishment) Bill 2024, and the Joint Revenue Board (Establishment) Bill 2024. These bills will simplify tax laws, expand the tax base, improve compliance, and provide economic relief to low-income earners and small businesses. The reforms also establish new institutions to enhance coordination and dispute resolution, positioning Nigeria for improved fiscal governance and sustainable economic growth.

When examining a country's tax revenue in relation to its Gross Domestic Product (GDP) and determining its capacity to fund its expenses, the tax-to-GDP ratio is frequently employed. A greater ratio signifies that the government distributes its financial resources evenly and comprehensively. Nevertheless, the International Monetary Fund (IMF) has observed that 50% of developing market economies and 66% of low-income nations had a tax-to-GDP ratio in 2020 that was below 15%. According to the World Bank, maintaining a tax-to-GDP ratio of 15% or higher is considered crucial for promoting long-term economic growth and reducing poverty.

Besley and Persson (2014) also observed that low-income nations generally generate tax revenues equivalent to approximately 10 per cent of their GDP. In contrast, high-income countries typically collect around 40 per cent of their GDP in taxes.

Prior studies such as Poon et al. (2021) and Nengzih (2018) suggested that corporate governance is an effective mechanism for regulating corporate tax avoidance. This is because strong corporate governance practices can lead to more responsible tax behaviour by firms and consequently reduce the likelihood of aggressive tax avoidance strategies. This is often attributed to the oversight and monitoring functions provided due to the strong corporate governance practices, which can help ensure that the firm's tax strategies are perfectly aligned with ethical and legal standards. The agency framework argues that managers are risk-averse and self-serving, which prevents them from acting in the best interest of shareholders (Sheedy, 1999). Thus, the framework suggests that managers should be monitored and given incentives to ensure goal congruence between shareholders and managers (Boshkoska, 2014). Audit committees play a significant role in overseeing the corporation's financial reporting system independently of management. In an agency relationship, where principals delegate decision-making authority to agents, audit committees help reinforce trust by ensuring that financial reporting is accurate and effective. Moreover, effective audit committees oversee and govern management's tax planning practices (Cai et al., 2015).

For instance, the audit committee relies heavily on the expertise of its members. Acquiring this requires either prior experience in the financial sector or service on another board. When a board of directors of a publicly traded company chooses a team of finance and accounting professionals to serve on the audit committee, the committee gains the authority to carry out its tasks and obligations without interference from the board (Tandean & Winnie, 2016). Previous studies have shown that having members on the audit committee with financial competence helps the committee perform its oversight duties more effectively, lowers the risk of earnings management, and lowers the likelihood of a restatement (Deslandes et al., 2019). Studies such as Tania and Mukhlisin (2020) and Apriliyana and Suryarini (2018) argue that audit committee expertise, particularly in finance or accounting, has a negative effect on corporate tax avoidance. This is because such expertise enhances the committee's ability to effectively monitor and oversee the company's tax policies and practices, thereby reducing the likelihood of tax avoidance.

Additionally, another important attribute of the audit committee is its diversity, and the audit committee oversight is strengthened when female directors are included. Dang and Nguyen (2022) observed that women tend to exhibit a higher level of caution and deliberation when making decisions, often being more risk-averse compared to men. Prior research has shown that the participation of women in an audit committee may increase the efficiency of the committee and limit tax avoidance. In support of this notion, prior research has shown that the presence of women on a company's board may improve its success (Ararat & Yurtoglu, 2021). Green and Homroy (2018) also observed that the presence of women on board committees improves corporate governance and business performance. According to Lanis et al. (2015), the inclusion of women on boards minimises tax aggression. Rahimipour (2017) also argued that having more women on corporate boards will lead to stricter oversight, and in addition, women in leadership roles tend to be cautious and ethical. However, according to Suleiman (2020), having more women on boards may boost financial performance by cutting taxes. Similarly, Lawati and Hussainey (2021) suggested that women on boards have a negative effect on tax avoidance compared to their male counterparts.

Furthermore, the intensity of an audit committee's operations may influence the performance of its oversight tasks, particularly in financial reporting and auditing. The number of audit committee meetings conducted in a year may be characterised as audit committee diligence. Previous studies have used proxies such as audit committee meeting frequency and audit committee size to measure audit committee diligence (e.g. Islam & Hashim, 2023; Dang & Nguyen, 2022). Therefore, an audit committee must meet more regularly to be more successful and functional (Al-Najjar, 2018). Audit committees must meet regularly to adequately oversee management, because the frequency with which the audit committee meets may reduce financial reporting errors and boost the committee's effectiveness, as well as decrease the frequency of restatements (Islam & Hashim, 2023).

The Global Financial Integrity, in its 2021 report estimated that as a result of aggressive tax avoidance strategies,

\$25 Billion was moved from sub-Saharan countries to tax havens between 2009 and 2018 through illicit financial flows with outflows from Nigeria amounting to \$81 Million. Similarly, UNCTAD (2020) noted that corporate taxes account for one-sixth of African governments' total revenue, approximately \$67 billion, according to estimates from 2015, and most estimates place the cost of tax avoidance at about a tenth of this amount (Hearson, 2018). That means 10 percent of that revenue, \$6.7bn, was lost to tax avoidance.

Apart from the concerns about the amount of income lost, the legal versus illegal lens for tax avoidance has also been subject to intense debate. Several studies such as Schoeman (2015), Abdelmoula et al. (2022), Sugiyanti et al. (2023) while still acknowledging the legality of tax avoidance argue that the legality of tax avoidance does not mean it is ethically and morally acceptable. This is because tax avoidance can be seen as a form of exploitation, where individuals or corporations use legal loopholes or creative accounting to minimize their tax liability without contributing fairly to the public purse. Tax avoidance, therefore, represents a risk to tax revenues and tax fairness, potentially undermining taxpayers' voluntary compliance.

Focusing on the non-financial sector of the Nigerian economy, the non-financial firms are crucial to the growth of the Nigerian economy, playing a critical role in various sectors such as manufacturing, agriculture, telecommunications, and real estate. These sectors contribute significantly to the nation's Gross Domestic Product. Notably, telecommunications have experienced significant recent growth, becoming a major contributor to the Nigerian economy. Similarly, the real estate sector has also seen substantial growth. However, this growth has been accompanied by concerns about tax compliance within the industry. Jung (2023) suggests that the sector's reliance on cash-based transactions and informal practices may make it vulnerable to tax avoidance. Therefore, this study aims to investigate the effect of audit committee attributes on corporate tax avoidance among listed non-financial firms in Nigeria.

The main objective of the study is to examine the effect of audit committee attributes on corporate tax avoidance of listed non-financial firms in Nigeria. Thus, the specific objectives are to:

- i. assess the effect of audit committee expertise on corporate tax avoidance of listed non-financial firms in Nigeria.
- ii. determine the effect of Audit committee gender diversity on corporate tax avoidance of listed non-financial firms in Nigeria.
- iii. examine the effect of audit committee diligence on corporate tax avoidance of listed non-financial firms in Nigeria.

Based on the objectives of the study, the following hypotheses are formulated:

H0<sub>1</sub>: Audit committee expertise has no significant effect on corporate tax avoidance of listed non-financial firms in Nigeria.

H0<sub>2</sub>: Audit committee gender diversity has no significant effect on corporate tax avoidance of listed non-financial firms in Nigeria.

H0<sub>3</sub>: Audit committee diligence has no significant effect on corporate tax avoidance of listed non-financial firms in Nigeria.

The study covered all 105 non-financial firms listed on the Nigerian Exchange Group (NGX) over 10 years (2014-2023). These firms include five (5) agricultural firms, six (6) firms in the conglomerate sector, eight (8) construction/real estate firms, twenty-one (21) consumer goods firms, seven (7) firms in the healthcare sector, nine (9) ICT firms, thirteen (13) industrial goods firms, four (4) natural resources firms, nine (9) oil and gas firms, and twenty-three (23) firms in the services sector.

The findings of the study are expected to contribute significantly to the existing literature on corporate tax avoidance, particularly within an agency theory framework. It expands upon previous research by examining how specific attributes of audit quality influence the board of directors' oversight of tax planning activities. The study also provides valuable insights for the management of non-financial firms to understand the role of audit

quality in mitigating tax risks, which can help management develop more robust tax governance frameworks and ensure compliance with tax laws and regulations.

Therefore, the remainder of this paper consists of four sections. After the current section, section two is the literature review, section three is the methodology used in the study, section four is the findings, and finally, section five is the conclusion and recommendations of the study.

## LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The audit committee has been recognized and conceptualized as an essential corporate governance mechanism by which boards of directors carry out their oversight and supervisory roles (Bala, 2018; Brennan & Kirwan, 2015). The audit committee is part of the requirements of the Companies and Allied Matters Act (CAMA) of 1990. CAMA introduced audit committees as an additional layer of control and certification in an effort to make public firms' annual reports more acceptable and dependable.

According to section 404 subsection 2 of the Companies and Allied Matters Act (CAMA) 2020, “the auditor shall in the case of a public company, make a report to an audit committee which shall be established by the public company”. Section 404 subsection stated that “the audit committee shall consist of five members comprising of three members and two non-executive directors, the members of the audit committee are not entitled to remuneration and are subject to election annually”. Section 2 of the Sarbanes Oxley Act (2002) defines the audit committee as “a committee (or equivalent body) established by and amongst the board of directors of an entity to oversee the accounting and financial reporting processes of the entity and audits of the financial statements of the entity”. Arens et al. (2014) defined audit committees as selected individuals, chosen from the board members, who have the crucial responsibility of ensuring the auditors' independence is upheld.

It has been argued that women exhibit a high level of proficiency in adopting and embodying the principles of transformational leadership (Amran et al., 2016). Audit committee diversity refers to the composition of an audit committee in terms of the demographic characteristics of its members, such as gender, ethnicity, age, and professional background (Marzuki, 2022). This diversity encompasses both the individual characteristics of the members and the collective mix of these characteristics within the committee.

Dang and Nguyen (2022) investigated the impact of Audit committee gender diversity on tax avoidance in emerging nations. Agency theory was used as the theoretical framework of the study. Data used were collected from non-financial firms listed in Vietnam from 2010 to 2019. The empirical result from GMM estimation on 3672 firm-year observations shows that female diversity of audit committees significantly constrains tax avoidance practices in Vietnam. However, the study was conducted in a jurisdiction whose corporate governance regulation is far different from what is obtained in Nigeria.

Using the premise of risk aversion theory, Suleiman (2020) examined the impact of female presence in the audit committee on corporate tax avoidance using data extracted from a sample of 21 listed manufacturing firms in Nigeria for six years. Panel-corrected standard regressions were used to test the hypothesis. The findings show that the presence of females in the board room has a significant positive impact on tax avoidance. This implies that the female director in the audit committee favors tax savings strategies. Despite the addition of the study to the empirical value of tax avoidance, the study suffers from sampling inadequacy which can affect the statistical power of the analysis conducted.

Deslandes et al. (2019) conducted a study on the relationship between audit committee expertise and tax aggressiveness. Agency theory was used to underpin the relationship between the two variables. Data used were extracted from a sample of 289 Canadian listed firms from 2011 to 2015. tax aggressiveness was measured using a long-term ETR. Findings from Tobit regression analysis indicate that audit committee expertise has a significant impact in constraining tax aggressiveness in Canada. This demonstrates that audit committee expertise is crucial in limiting tax aggressiveness. The data used covers five years. Extending the period covered might provide more insights.

Previous studies have found that having members with financial expertise on the audit committee improves its

ability to fulfil its oversight responsibilities (Krishnan & Visvanathan, 2007; Deslandes et al., 2019). Deslandes et al. (2019) further suggested that research on audit committee expertise and tax avoidance generally indicates that having a knowledgeable audit committee enhances the monitoring of financial information thereby playing an important role in constraining tax avoidance. Regarding tax risk management, the competence of audit committee members is equally, if not more, crucial, given the specialized nature of the tax. Prior research has demonstrated a negative correlation between the level of knowledge possessed by an audit committee and the practice of tax avoidance. Having financial and accounting professionals on the audit committee has a substantial impact on reducing tax avoidance. The presence of a higher number of financial and accounting experts on the audit committee can limit the occurrence of tax evasion behaviors (Tania & Mukhlisin, 2020; Dang & Nguyen, 2022).

Harsono and Yoren (2022) examined the effect of audit committee characteristics on tax aggressiveness using data collected from annual reports of 408 listed firms in Indonesia from 2017 to 2021. Audit committee expertise was among the variables examined. Effective tax rate was used to measure tax aggressiveness. Quantitative method research was employed, and panel regression analysis was utilized on 1,632 firm-year observations. The results showed that audit committee expertise has no significant relationship with tax aggressiveness. The study, however, failed to use theories to underpin the conceptual relationship between audit committee expertise and tax aggressiveness.

From an agency theory perspective, Tania and Mukhlisin (2020) conducted a study to examine the impact of corporate governance on tax avoidance using data collected from the annual reports of listed manufacturing firms in Indonesia from 2016 to 2018. Audit committee expertise was among the independent variables examined. Using a deductive approach, regression analysis was used to test the hypothesis. The result based on 275 firm-year data shows that audit committee diligence has a significant negative impact on tax avoidance in Nigeria. This suggests that an increase in audit committee expertise reduces tax avoidance practices. Though using a reasonable sample size of 62 firms, the period is considered too short as it only investigated three years from 2016-2018.

Dang and Nguyen (2022) conducted a study on the impact of audit committee expertise on tax avoidance in an emerging economy. Agency theory was used as the theoretical framework of the study. Data used were collected from non-financial firms listed in Vietnam from 2010 to 2019. The empirical result from GMM estimation on 3672 firm-year observations shows that financial and accounting experts of the audit committee significantly reduce tax avoidance behavior in Vietnam. However, the study was conducted in a jurisdiction whose corporate governance regulation is far different from what is obtained in Nigeria.

Deslandes et al. (2019) conducted a study on the relationship between gender-diverse audit committees and tax aggressiveness. Agency theory was used to underpin the relationship between the two variables. Data used were extracted from a sample of 289 Canadian listed firms from 2011 to 2015. tax aggressiveness was measured using a long-term ETR. Findings from Tobit regression analysis indicate that audit committee gender diversity has no significant impact in constraining tax aggressiveness in Canada. The data used covers five years. Extending the period covered might provide more insights.

Using the premise of agency theory, Hsu et al. (2018) examined the effect of audit committee expertise on tax avoidance. Secondary data was extracted from the annual report of 17 listed fuel & power sector companies in Bangladesh from 2015 to 2020. The data was analyzed with panel data regression. The result shows AC meeting has an inverse relationship with corporate tax avoidance. This suggests that an increase in AC meetings reduces corporate tax avoidance practices in Bangladesh. Despite the addition of the study to the empirical value of tax avoidance, the study suffers from sampling inadequacy, which can affect the statistical power of the analysis conducted.

Lis (2019) examined the effect of audit committee competence on tax avoidance from an agency theory perspective. Multiple linear regression was utilized on data extracted from manufacturing firms on the Indonesia Stock Exchange from 2013 to 2017. The results indicate that audit committee competence has an insignificant relationship with corporate tax avoidance in Indonesia. Similarly, from an agency theory view, Arismajayanti

and Jati (2017) also found that the competence of audit committee members has no impact on tax aggressiveness in Indonesia. The study used data collected from a sample of 176 listed firms on the Indonesia Stock Exchange from 2013 to 2016 and Multiple linear regression for testing the hypothesis. Also, the period covered by both studies is far lapsed as there have been more and more reforms to the code of corporate governance.

Tijjani and Peter (2020) investigated the impact of audit committee expertise on tax planning within the agency and stakeholder theory framework. Tax planning was measured by effective tax rate. Data used was collected from annual reports on 48 firms from 2008 to 2017. According to the findings, audit committee expertise has a negative but insignificant impact on tax planning among the sampled firms. However, the period of the research is not current as changes in corporate governance codes must have overtaken their research. As such this study will cover the period gap.

Gabrielle et al. (2020) examined the relationship between independent financial experts on the audit committee expertise and tax avoidance from a Resource-Based View Theory perspective. GAAP effective tax rate was used to measure tax avoidance. Data used were collected from the annual report of listed manufacturing firms in Indonesia from 2014 to 2018. Regression analysis was used to test hypotheses. The result based on 320 firm-year data shows that audit committee expertise has a significant positive impact on tax avoidance. This suggests that the existence of financial experts on audit committees increases the tendency to adopt tax avoidance practices.

Rizqia and Lastiati (2021) examined whether audit committee financial expertise affects the relationship between audit quality and tax avoidance. The study was grounded in agency theory. The study utilized cross-sectional data of listed firms in the Indonesia and Malaysia stock exchanges for the financial year 2018. Abnormal book-tax difference was used to estimate Tax avoidance. Findings show that audit committee financial expertise weakens the link between audit quality and tax avoidance. The result implies that the audit committee is ineffective in its supervisory function among the sample firms. The study has contributed immensely to the body of existing literature as it tried to address the link between audit committee financial expertise and tax avoidance but, the study covered one year, and the long-term effect of the relationship could not be examined.

Zheng et al. (2018) examined whether audit committees affect tax aggressiveness. Secondary data were collected from all A-share firms listed in Shanghai and Shenzhen Stock Exchanges from 2009–2016. Empirical results on 9871 samples established that audit committee expertise is not a significant determinant of tax aggressiveness. The study, however, did not employ theories to underpin the knowledge base of the phenomena under investigation, making it impossible to determine the academic stance and the underlining elements that support the researcher's statements and/or hypothesis.

Stephen et al. (2022) conducted a study on the effect of audit committee financial expertise on tax aggressiveness in Nigeria. Stakeholder theory was used to underpin the relationship between the two variables. Data used were extracted from the annual report of listed oil and gas firms in Nigeria from 2011 to 2020. Tax aggressiveness was measured using effective tax rate. Findings from regression analysis indicate that audit committee financial expertise has a significant positive on effective tax rate. Despite the addition of the study to the empirical value of tax aggressiveness, the study suffers from sampling inadequacy and industry restrictions.

Robinson et al. (2012) examined whether tax planning is influenced by financial experts on the audit committee using data from 2,947 firms spanning from 2001 to 2009. GAAP effective tax rate and cash effective tax rate were used to measure tax planning. Findings based on 11,645 firm-year observations show that the proportion of financial experts on the audit committee is positively related to the level of tax planning. The study, however, failed to use theories to underpin the conceptual relationship between audit committee expertise and tax aggressiveness.

The level of diligence exhibited by an audit committee is typically measured by the frequency of committee meetings, as indicated by previous research (Saaydah, 2019; Farinha & Viana, 2009; Raghunandan & Rama, 2007). This is because the dedication of an audit committee, shown by its meeting frequency and participation rates, reflects its ability to meet stakeholder obligations.

Alkilani et al. (2019) opined that the frequency of audit committee meetings, which indicates the level of diligence exhibited by the committee, is expected to impact the probability of receiving a modified audit opinion. A diligent audit committee will allocate sufficient time to oversee and scrutinise the information prepared by management, thereby enhancing the quality of financial reporting. Raghunandan and Rama (2007) conducted a study that established that measuring audit committee meetings is the most effective indicator for assessing the level of diligence exhibited by audit committees.

From an agency theory perspective, Islam and Hashim (2023) conducted a study examining the relationship between audit committee meetings and corporate tax avoidance. Panel data was collected from the annual report of 17 listed fuel and power sector firms in Bangladesh from 2016 to 2020. Tax avoidance was measured by using the current effective tax rate. The result indicates that audit committee meetings have a significant negative impact on corporate tax avoidance. This implies that an increase in the number of audit committee meetings can help in constraining corporate tax avoidance practices. Despite the addition of the study to the empirical value of tax aggressiveness, the study suffers from sampling inadequacy and industry restrictions as only the fuel and power sectors were examined. As such the finding cannot be generalized to other sectors

Stephen et al. (2022) conducted a study to examine the impact of audit committee meetings on tax aggressiveness proxied by effective tax rate. Stakeholder theory was used to underpin the relationship between the two variables. Data used were collected from the annual reports of six listed oil and gas firms in Nigeria from 2011 to 2020. The regression analysis result shows that audit committee meetings have a significant negative impact on the effective tax rate. This implies an increase in the number of meetings by the audit committee reduces the effective tax rate of the sample firms. Despite the addition of the study to the empirical value of tax aggressiveness, the study suffers from sampling inadequacy and industry restrictions.

Deslandes et al. (2019) examined the effect of audit committee diligence on tax aggressiveness. Agency theory was used to underpin the relationship between the two variables. Data used were extracted from a sample of 289 Canadian listed firms from 2011 to 2015. tax aggressiveness was measured using a long-term ETR. Findings from Tobit regression analysis indicate that audit committee diligence has a significant impact in constraining tax aggressiveness in Canada. However, the period of the research is not current as changes in corporate governance codes must have overtaken their research. As such this study will cover the period gap.

Egbunike et al. (2021) conducted a study to examine the impact of corporate governance on tax avoidance using data from listed consumer goods firms in Nigeria. Audit committee diligence was among the independent variables examined. Quantile Regression technique was used to test to hypothesis and the result shows that audit committee diligence does not have a significant impact on tax avoidance in Nigeria. The study, however, did not employ theories to underpin the knowledge base of the phenomena under investigation, making it impossible to determine the academic stance and the underlining elements that support the researcher's statements and/or hypothesis.

Palupi et al. (2021) investigated the impact of audit committee meetings on tax avoidance from an agency theory perspective. Tax avoidance was measured by using an effective tax rate (ETR). Data used were collected from 62 listed manufacturing firms in Indonesia for three years spanning from 2016 to 2018. Findings show that a higher frequency of audit committee meetings significantly reduces tax avoidance among the sampled firms. This implies higher audit meeting meetings lead to improved effectiveness and supervision of the audit committee. Though using a reasonable sample size of 62 firms, the period is considered too short as it only investigated three years from 2016-2018.

Harsono and Yoren (2022) examined the effect of audit committee characteristics on tax aggressiveness using data collected from annual reports from 408 listed firms in Indonesia from 2017 to 2021. Audit committee diligence was among the variables examined. Effective tax rate was used to measure tax aggressiveness. Quantitative method research was employed, and panel regression analysis was utilized on 1,632 firm-year observations. The result shows audit committee diligence has no significant relationship with tax aggressiveness. The study, however, failed to use theories to underpin the conceptual relationship between audit committee diligence and tax aggressiveness.

Tijjani and Peter (2020) extended empirical research on the determinant of tax planning by investigating the impact of audit committee meeting frequency on tax planning. The study used agency and stakeholder theory to explain the relationship. Tax planning was measured by effective tax rate. Data used was collected from annual reports on 48 firms from 2008 to 2017. According to the findings, the frequency of audit committee meetings has a negative but insignificant impact on tax planning among the firms sampled. However, the period of the research is not current as changes in corporate governance codes must have overtaken their research. As such this study will cover the period gap.

Prospect theory is a behavioural economic theory that describes how people make decisions in uncertain situations. It implies that people tend to value potential losses more than potential gains of equal value. This can result in risk aversion when faced with potential gains and risk-seeking behaviour when confronted with potential losses. The theory was developed by Daniel Kahneman and Amos Tversky in 1979 as an alternative model to the expected utility theory. While expected utility theory aims to aid decision-making among various prospects, experimental tests have shown that it may not align with people's actual choices. Prospect theory provides a different perspective on decision-making under risk, highlighting how individuals evaluate potential outcomes. It suggests that individuals do not always make decisions based on expected utility but are influenced by the way options are framed and the potential gains and losses involved.

Prospect theory stems from Loss aversion, where the observation is that agents asymmetrically feel losses greater than that of an equivalent gain. When faced with a risky choice leading to gains agents are risk averse, preferring a certain outcome with a lower expected utility (Kahneman & Tversky, 1979). Gender differences in risk-taking behaviors have been extensively studied in both psychological and economic literature. Existing research suggests that women in the general population are more risk-averse than men (Francis et al., 2014). For example, Huang and Kisgen (2013) and Francis et al. (2014) argued that women are more conservative and make less risky investment decisions as well as being more likely to comply with extant rules and regulations. Therefore, the combination of women's risk-averse nature and Prospect theory implies that women may exhibit a preference for avoiding risks when it comes to potential gains, aligning with the theory's predictions.

Prospect Theory shapes individuals' decision-making processes under uncertainty and risk when it comes to tax strategies leading to cautious and conservative tax planning strategies. The theory also plays a role in determining the cost-benefit analysis of tax avoidance strategies, highlighting the psychological factors that influence individuals to engage in tax avoidance practices to maximize profits (Chang, 1984).

Gender-diverse audit committees may bring a broader range of perspectives and decision-making styles to discussions on tax strategies. This diversity can lead to more comprehensive evaluations of risks and benefits associated with tax planning, potentially influencing the committee's approach to tax avoidance strategies. Additionally, Prospect Theory suggests that individuals may exhibit risk-averse behavior when facing gains. In the context of tax avoidance, a gender-diverse audit committee may approach tax planning with a more cautious and conservative mindset, potentially leading to a preference for less risky tax strategies to maximize benefits and minimize potential losses.

Owing to the discussions above, Prospect theory will serve as the theoretical framework that underpins the relationship between audit committee gender diversity and corporate tax avoidance.

Agency theory was formulated by Jensen and Meckling in 1976. The concept of agency theory is centred on the examination of the agency problem and its corresponding resolution (Jensen & Meckling, 1976; Panda & Leepsa, 2017). According to agency theory, a fundamental disagreement arises between managers acting as agents and investors, resulting in the potential adoption of tax avoidance strategies. Scholars commonly employ agency theory as a contractual framework to analyse the relationship between principals and agents. Principals assign tasks to agents with the expectation that agents will fulfil these requests in a manner that aligns with the principals' optimal outcomes (Eisenhardt, 1989; Jensen and Meckling, 1976; Bendickson et al. 2016).

The issue of agency problems has been a long-standing concern that has endured since the inception of joint stock companies. The pervasive presence of the agency problem across various organizational contexts has established this theory as a prominent and highly significant concept within the realms of finance and economic

literature (Panda & Leepsa, 2017). According to Ma'sum et al. (2023), it is possible for managers to engage in the manipulation of annual report content to conceal instances of tax avoidance, primarily driven by personal motivations. The mitigation of conflicts of interest can be achieved through the implementation of effective governance practices, including the inclusion of independent members on the board.

An agency relationship is also present between bondholders and shareholders. The primary focus of this relationship pertains to the conflict of interest that arises between bondholders and shareholders. Bondholders seek to optimize the value of a firm's debts, while shareholders aim to maximize the equity value of the firm (Brander & Poitevin, 1992). Within this particular framework, the principals, referred to as bondholders, rely on the agents, known as shareholders, to enhance the value of debt. Consequently, the principals will demand elevated interest rates to guarantee that the anticipated return from the debt matches the return derived from alternative applications of the bondholders' funds (Brander & Poitevin, 1992). Consequently, the aforementioned agency cost of debt covenant (Jensen & Meckling, 1976) may arise as a result.

According to Putra et al. (2019), a conflict of interest arises between owners and managers, specifically in the principal-agent relationship. Owners seek to maximize their investment returns, while managers prioritize their remuneration. Consequently, the proprietor will seek to have the manager reduce the proportion of profits allocated to the government as tax payments. Managers employ proactive tax planning strategies as a subsequent measure of agency theory, wherein managers are obligated to engage in legal tax avoidance to minimize the tax burden on net profits, thereby securing bonuses.

Agency theory underpins the importance of audit committee attributes in mitigating conflicts of interest between shareholders and management. Effective audit mechanisms characterised by financially expert and diligent audit committees are essential for reducing agency costs, enhancing financial reporting quality, and strengthening corporate governance. Therefore, agency theory will serve as the theoretical framework that underpins the relationship between audit committee expertise, audit committee diligence, and corporate tax avoidance.

## METHODOLOGY, VARIABLES AND MODEL

This study adopted a correlational research design under the general quantitative framework as identified by Creswell (2012), which was used to test hypotheses about the cause-and-effect or correlation between audit quality and corporate tax avoidance as used by several studies including Ilu and Hamid (2020) and Saleh et al. (2020). The population for this research includes one hundred and five (105) non-financial firms listed on the Nigerian Exchange Group (NGX) as of 31<sup>st</sup> December 2023. A census approach was employed to arrive at the appropriate sample. The study applied two criteria to derive an adjusted population; firstly, only those firms that reported their financial statement consistently during the period under study (2014 to 2023) will be considered. Secondly, a firm must have been listed without being delisted throughout the study period (2013 to 2022). After applying these filters, a total of fifty-six (56) non-financial firms were covered by the study. The data for this study was collected solely from secondary sources in accordance with the quantitative research framework and multiple regression technique was adopted for data analysis.

There are two sets of variables covered by this study. These are the dependent and the explanatory (independent) variables. The dependent variable is proxied by long-run cash effective tax rate (ETx\_Rt) and the explanatory variables are proxied by audit committee expertise (AuC\_Ex), audit committee gender diversity (AuC\_Dv), and audit committee diligence (AuC\_DI). They are presented in table 1.

**Table 1** Variables Measurement

| Variable      | Proxy(ies)/Acronyms                       | Measurement                                                                  | Sources                                  | Apriori |
|---------------|-------------------------------------------|------------------------------------------------------------------------------|------------------------------------------|---------|
| Tax avoidance | Long-run Cash Effective Tax Rate (ETx_Rt) | Summation of cash taxes paid over a ten-year period divided by the summation | Dyreng et al. (2008), Gebhart (2017) and |         |

|                            |                                           |                                                                                                             |                                                       |              |
|----------------------------|-------------------------------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------|
|                            |                                           | of profit before tax over the same period.                                                                  | Aronmwan and Okaiwele (2020)                          |              |
| Audit Committee Attributes | Audit Committee Expertise (AuC_Ex)        | The proportion of financial and accounting experts in the audit committee.                                  | Dang and Nguyen (2022) and Harsono and Yoren (2022)   | Negative (-) |
| Audit Committee Attributes | Audit committee gender diversity (AuC_Dv) | The proportion of female members in the audit committee.                                                    | Suleiman (2020) and Dang and Nguyen (2022)            | Negative (-) |
| Audit Committee Attributes | Audit Committee Diligence (AuC_Dl)        | The number of audit committee meetings for the year.                                                        | Onatuyeh and Ukolobi (2020) and Stephen et al. (2022) | Negative (-) |
| Control                    | Days to Sign (DTS)                        | It is the logarithm of lag between the signature date of the audit opinion and the date of fiscal year-end. | Poon et al. (2021)                                    |              |

**Source:** Compiled by the author, 2025

## FINDINGS AND DISCUSSION

Table 2 below presents the summary of the descriptive statistics, which includes the minimum, maximum, mean and standard deviation of the variables.

**Table 2** Descriptive statistics

| Variables | Mean    | Std. Dev. | Min     | Max    |
|-----------|---------|-----------|---------|--------|
| ETx_Rt    | 0.2845  | 0.6016    | -0.8204 | 2.8995 |
| Auc_Ex    | 0.2030  | 0.2297    | 0       | 0.6667 |
| Auc_Dv    | 0.1239  | 0.1535    | 0       | 0.8    |
| Auc_Dl    | 3.9     | 0.8876    | 1       | 9      |
| DTS       | 95.0821 | 39.0374   | 28      | 319    |

**Source:** Author's computations generated with STATA from annual reports and accounts of the sampled non-financial firms (2014-2023)

As indicated in Table 2, corporate tax avoidance, measured as the sum of cash taxes paid over ten years divided by the sum of profit before tax over the same period, has a mean of 0.2845. This means that the sampled listed non-financial firms typically pay an average of 28.45% of their pre-tax income in taxes. However, the standard deviation is comparatively high at 0.6016. This suggests that there is a substantial variation in tax rates among the listed non-financial firms. While some firms may be paying significantly more taxes, others may be paying very little by having negative effective tax rates (possibly as a result of tax credits or losses). The minimum and maximum are -0.8204 and 2.8995, respectively. The negative minimum reflects instances where some firms made losses during the period under review. For example, Chellarams PLC, UACN Property Development PLC, International Breweries, and Nigerian Enamelware PLC incurred cumulative losses of N1.3 billion, N24 billion, N127 billion, and N726 billion, respectively, over the 10 years under review.

In addition, Table 2 presents the descriptive analysis results of audit committee financial expertise (AuC\_Ex), with a mean value of 0.2030, indicating that, on average, listed firms have 20.30% financial expertise within their audit committees. The standard deviation value of 0.2297 means that, on average, the data points deviate from the mean by about 0.2297 units. This indicates a moderate level of dispersion; the data points are neither highly clustered around a single value nor uniformly spread but rather exhibit some variability while remaining reasonably concentrated. However, the minimum value of 0 indicates that there are firms with the lowest possible level of financial expertise within their audit committees. This means that some firms have no financial experts on their audit committees. These firms include FTN Cocoa Processors Plc, Presco Nig Plc, and Chellarams Plc. At the same time, the maximum value of 0.6667 implies that there are firms with the highest level of financial expertise within their audit committees. Firms equipped with greater financial expertise in their audit committees are better equipped to navigate intricate financial decisions.

Table 2 also indicates that audit committee gender diversity, represented by the proportion of female members, has a mean value of 0.1239. This indicates that, on average, about 12.39% of the audit committee members are female across the sampled firms. The standard deviation of 0.1535 indicates significant variability in gender diversity across different audit committees, with some committees having a substantially higher or lower proportion of female members. The range of this proportion spans from 0 to 0.8, meaning that some audit committees have no female members at all, while others have up to 80% female representation. For example, Presco Nig Plc, FTN Cocoa Processors PLC and Neimeth Pharmaceuticals Plc have no female audit committee members during the period of the study, while Transnational Corporation PLC, Cadbury Nigeria PLC and Beta Glass Company PLC have up to 80% female representation on their audit committees (i.e. 4 out of 6).

Audit committee diligence (AuC\_DI), which is measured as the number of audit committee meetings held within a year, has a mean value of 3.9, which indicates that, on average, the audit committees meet approximately four times annually. The standard deviation of 0.8876 suggests moderate variability in the number of meetings across different firms, meaning most firms hold a similar number of meetings, close to the average. The minimum number of meetings recorded is 1, while the maximum is 9, reflecting a range of audit committee activity levels among firms.

Lastly, the Days to Sign (DTS) variable, with a mean of 95.0821 days and a standard deviation of 39.0374 days, indicates an average lag of approximately 94 days between the fiscal year-end and the signing of the audit opinion. The minimum and maximum values range from 28 days to 319 days, respectively, indicating that some firms are very prompt with their reporting, potentially due to strong internal controls, simple operations, or regulatory pressure. The longer DTS may indicate lower audit quality, weak governance, or opaque financial reporting, which could be associated with higher tax avoidance.

## Correlation Results

Table 3 below presents the result of the Pearson correlation analysis, which was carried out to detect if a relationship exists between audit committee attributes and corporate tax avoidance.

**Table 3** Correlation Matrix

| Variables | ETx_Rt   | Auc_Ex | Auc_Dv | Auc_DI | DTS |
|-----------|----------|--------|--------|--------|-----|
| ETx_Rt    | 1.0000   |        |        |        |     |
| Auc_Ex    | -0.3064* | 1.0000 |        |        |     |
|           | 0.0000   |        |        |        |     |
| Auc_Dv    | -0.2850* | 0.0683 | 1.0000 |        |     |
|           | 0.0000   | 0.1065 |        |        |     |

|        |          |         |          |         |        |
|--------|----------|---------|----------|---------|--------|
| Auc_Dl | -0.1950* | 0.0910* | -0.1454* | 1.0000  |        |
|        | 0.0000   | 0.0314  | 0.0006   |         |        |
| DTS    | 0.0391   | -0.0315 | -0.1308* | -0.0203 | 1.0000 |
|        | 0.3555   | 0.4575  | 0.0019   | 0.6325  |        |

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

**Source: Author's computations generated with STATA**

Table 3 presents correlation values between dependent and independent variables and the correlation among the independent variables themselves. These values were generated from Pearson Correlation output. The table contains a correlation matrix showing the Pearson correlation coefficients between the dependent and independent variables and among the independent variables of the study.

The coefficients from Table 3 revealed a negative and weak correlation between Effective Tax Rate (ETX\_RT), Audit Committee Expertise (Auc\_Ex) ( $r = -0.3064$ ), Audit Committee Diversity (Auc\_Dv) ( $r = 0.2850$ ), and Audit Committee Diligence (Auc\_Dl) ( $r = -0.1950$ ). This implies that these variables move in an opposite direction to the dependent variable, Effective Tax Rate (ETX\_RT), as indicated by the results obtained from the correlation matrix. There is also a weak and positive correlation between Audit Committee Expertise (Auc\_Ex) and Audit Committee Diligence (Auc\_Dl) ( $r = -0.0910$ ). Lastly, the correlation between Audit Committee Diversity (Auc\_Dv) and Days to Sign (DTS) is weak and negative ( $r = -0.1308$ ).

On the other hand, the relationship between the independent variables themselves is not found to be significant to the extent that one can conclude there is multicollinearity, unless the variance inflation factor and tolerance values are comparatively far beyond the established rule of thumb. Thus, the variance inflation factor (VIF) and tolerance value are advanced measures for assessing multicollinearity among the regressors.

### Post Estimation Tests

Before conducting the regression analysis, the study conducted diagnostic tests to maintain the unbiasedness of the parameters. The diagnostic tests include Hausman's specification test, multicollinearity test, heteroscedasticity test and Lagrangian multiplier test.

The results of the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity revealed the presence of heteroscedasticity in the data, as indicated by a probability value of less than 5% ( $\text{Prob} > \chi^2 = 0.0000$ ). Hence, considering a 1% level of significance, this study found sufficient evidence against the null hypothesis, which stated that the residual of the model is homoscedastic and was thus rejected.

The study conducted both fixed and random effect regression, and then Hausman's specification test was carried out to determine the appropriate model. The chi-square value for ETx\_Rt and the related probability values is 3.49 and 0.4924. This indicates that the dataset does not meet the asymptotic assumption of the Hausman specification test; therefore, the random effects model was preferred.

The Lagrangian Multiplier test helps in deciding between random effects regression and pooled OLS regression. The test is conducted after running the random effects model to see if there is the presence or absence of a cross-sectional effect in the panel dataset. The rule is that if it is significant, random effect is the preferred model; otherwise, seemingly unrelated OLS regression suffices. Based on the result of the Breusch-Pagan Lagrangian multiplier test, the null hypothesis was rejected, and it was concluded that a random effect model is appropriate. This is evidenced by  $\text{prob} > \chi^2 = 0.000$ . Therefore, the study interpreted a random-effect regression result.

## SUMMARY OF REGRESSION RESULT

The summary of the regression results obtained from the fixed effects model is presented in Table 4 below:

**Table 4** Random Effects Regression Results

| Variables      | Coefficient | Z Statistics | Z Sig |
|----------------|-------------|--------------|-------|
| CONSTANT       | 0.00618     | 2.41         | 0.016 |
| AuC_Ex         | -0.01811    | -7.50        | 0.001 |
| AuC_Dv         | -0.02212    | -6.16        | 0.000 |
| AuC_Dl         | -0.00085    | -1.55        | 0.121 |
| DTS            | 0.00001     | 0.14         | 0.886 |
| R <sup>2</sup> | 0.1748      |              |       |
| Wald Chi2      | 101.72      |              |       |
| Prob>Chi2      | 0.0000      |              |       |

**Source:** Author's computations generated with STATA

The proportion of the overall variation in the dependent variable described by the independent variables together was calculated using the cumulative R<sup>2</sup> of 0.1748 for the variables, which is the multiple coefficients of determination. As a result, the independent variables in the analysis account for 17.48% of the overall variation in ETx\_Rt of listed non-financial firms in Nigeria. The model in Table 4 also revealed a Wald chi2 of 101.72 with a corresponding p-value of 0.000, which indicates that the model is fit, as it is significant at 1%. Furthermore, according to the likelihood of the Wald chi2, which is significant at 1%, all the independent variables collectively in the model are significant. It means that there is a 99.9% likelihood that the association between the variables is not attributable to chance and that the regression findings can be trusted. Furthermore, it means that the study's independent variables reliably predict the study's dependent variable.

The parameter of Audit Committee Financial Expertise (AuC\_Ex), measured by the proportion of financial and accounting experts as shown in the model, yields a coefficient of -0.01811. By implication, a negative relationship exists between Audit Committee Expertise and Corporate Tax Avoidance (Long-run cash effective tax rates); in other words, they move in opposite directions. A negative relationship exists between audit committee financial expertise and tax avoidance because financial experts on the audit committee have the ability and expertise to navigate complex tax regulations and implement strategies that minimise tax liabilities. The relationship so established is said to be statistically significant at 5% since the p-value of the z-statistics is 0.001, as seen in Table 4. The p-value is less than 5%; hence, this study found sufficient evidence to reject the null hypothesis, which states that Audit Committee Expertise has no significant effect on Corporate Tax Avoidance of listed non-financial firms in Nigeria.

This finding supports that of Thomya and Ritsri (2024), Saad et al. (2023), Gabrielle et al. (2020) and Robinson et al. (2012), who found that financial experts may sometimes aid in tax planning strategies, thus increasing tax avoidance. However, the findings are contrary to the conclusions from Tania and Mukhlisin (2020), Dang and Nguyen (2022), and Hsu et al. (2018), who all found that audit committee expertise significantly reduces tax avoidance, suggesting that increased expertise in audit committees enhances oversight and mitigates tax avoidance practices. Financial experts on the audit committee are also more likely to prioritise long-term value creation and compliance over short-term monetary gains achieved through tax avoidance. They can identify and

mitigate risks associated with aggressive tax strategies, ensuring that the company adheres to ethical standards and regulatory requirements. This rigorous oversight reduces the likelihood of engaging in tax avoidance, as the audit committee plays a crucial role in enforcing transparency and accountability in financial reporting.

The coefficient of Audit Committee Diversity is -0.02212. As seen in the model, the outcome of AuC\_Dv from the parameter indicates a negative relationship, implying that audit committee diversity moves in the opposite direction with long-run cash effective tax rates. This result indicates that audit committee gender diversity is negatively associated with corporate tax avoidance, as measured by long-term effective tax rates. This means that firms with greater gender diversity on their audit committees tend to engage in aggressive avoidance strategies, resulting in lower effective tax rates. This is evident in Table 4, where the parameter value is -0.02212, with a z-statistic of -6.16 and a p-value of 0.000, which is statistically significant at 1% level of significance. Hence, the study found sufficient evidence to reject the null hypothesis, which states that Audit Committee Gender Diversity has no significant effect on Corporate Tax Avoidance of listed non-financial firms in Nigeria.

The negative relationship between audit committee gender diversity and tax avoidance suggests that greater female representation on audit committees is associated with higher levels of tax avoidance by firms. The findings contradict the literature on organisational behaviour and prospect theory, which states that women are generally risk averse. That is, they often choose the less risky alternative when faced with conflicting courses of action. This finding contrasts with the proposition of agency theory that diverse audit committees, particularly those with female members, may enhance the overall quality of governance by providing different perspectives and promoting more rigorous oversight. It also contradicts the findings of Dang and Nguyen (2022) and Deslandes et al. (2019), who supported the view that greater gender diversity in audit committees helps constrain tax avoidance.

The Audit Committee Diligence, measured as the number of audit committee meetings for the year, as shown in Table 4.3, with a coefficient of -0.00085, indicates a negative relationship with Corporate Tax Avoidance. However, since the p-value is statistically not significant at any level, the findings suggest that diligent audit committees may not always monitor, restricting corporate tax avoidance. The established link is deemed statistically insignificant, as indicated by a p-value of 0.886 for the z-statistic, as shown in Table 4. These results did not reveal sufficient evidence to reject the null hypothesis, which states that Audit Committee Diligence has no significant effect on Corporate Tax Avoidance among listed non-financial firms in Nigeria. The findings align with those of Harsono and Yoren (2022), Egbunike et al. (2021), and Tijjani and Peter (2020), who found no significant relationship between audit committee diligence and tax avoidance. However, the findings are contrary to the findings of Irri et al. (2021), Yahaya (2025) and Putri and Rochayatun (2024), who found that increased audit committee diligence is indirectly linked to corporate tax avoidance through enhancing profitability, which in turn enables firms to engage in aggressive tax avoidance strategies as long as they are aligned with shareholder wealth maximisation objectives. Additionally, frequent meetings may enable firms to examine tax avoidance opportunities thoroughly.

## CONCLUSION AND RECOMMENDATIONS

This study examined the effect of audit committee attributes on corporate tax avoidance of listed non-financial firms in Nigeria and found that audit committee expertise and audit committee gender diversity inherently affect corporate tax avoidance among listed non-financial firms in Nigeria. To begin with, a statistically significant negative relationship exists between audit committee expertise and corporate tax avoidance. This implies that a higher level of financial expertise among the audit committee members is associated with higher levels of tax avoidance. Members with substantial financial knowledge have the ability and expertise to navigate complex tax regulations and implement strategies that minimise tax liabilities. Furthermore, audit committee gender diversity among listed non-financial firms in Nigeria is negatively associated with corporate tax avoidance. Firms with more diverse audit committees (specifically with greater female representation) tend to engage in more aggressive tax avoidance strategies, resulting in lower long-term cash effective tax rates. Finally, Audit Committee Diligence does not have a statistically significant effect on Corporate Tax Avoidance among listed non-financial firms in Nigeria.

Based on the findings of the study recommends that the Securities and Exchange Commission (SEC) should mandate the inclusion of both financial and compliance/legal experts on the audit committees. The Financial Reporting Council of Nigeria should also update the Nigerian Code of Corporate Governance to include experience in tax ethics and transparency as a requirement for financial experts on audit committees. The Federal Inland Revenue Service should also keep track of firms with highly expert audit committees and monitor such firms for signs of aggressive tax planning. The study also recommends that the Financial Reporting Council of Nigeria (FRCN) and the Institute of Chartered Accountants of Nigeria (ICAN) should provide enhanced training on ethical tax practices and the societal implications of aggressive tax avoidance for all audit committee members, regardless of gender.

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