KASU Journal of Accounting Research and Practice (KAJARAP)

Volume 10, Number 2, December, 2025 ISSN: 2360-8889
https://journals.kasu.edu.ng/index.php/accounting

BOARD SIZE AND BOARD INDEPENDENCE ON FINANCIAL REPORTING QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA: MODERATED BY AUDITOR INDEPENDENCE

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Abstract

Financial reporting quality serves as a crucial indicator of the stewardship provided by management to investors' wealth. This study examined the effect of board size and board independence on financial reporting quality of listed deposit money banks in Nigeria: Moderated by auditor independence. The study adopted an ex-post facto research design, data from twelve 12 listed deposit money banks over a ten-year period (2013-2023) was collected. The study employs non-discretionary accruals as a proxy for financial reporting quality, while board size, dependent variables. In addition, auditor independence is examined as independent variables and moderator respectively. The analysis includes robustness tests to ensure the validity of the regression model. Findings reveal a significant positive relationship between board independence and financial reporting quality. However, board size showed a negative but statistically significant effects on financial reporting quality. While Board Size shows a positive and insignificant effect financial reporting quality, the presence of independent auditors provides a positive effect, although not statistically significant. It is recommended that banks optimize their board size to ensure effective oversight and decision-making. Also, Banks should prioritize the appointment of independent non-executive directors who possess relevant expertise and experience to provide objective oversight.

Keywords: auditor independence, board size, board independence, financial reporting quality

1. Introduction

Financial statements are evidence of periodic stewardship reported by management who are responsible for managing investors' wealth. It forms the bases upon which the shareholders and other users of the financial statements can assess in quantitative terms the ability of the management. Consequently, the quality of the financial statements can be subject to how useful the statements are to the intended user. This therefore suggest that, a quality financial reporting in addition to disclosing quantitative information should also disclosure relevant qualitative information that would enhance the users' understanding of the financial statements. Arguably, as management, the board of directors prepare the financial statements in compliance with relevant International Financial Reporting Standards (IFRSs) and other national

provisions. These standards and provisions enhances global harmonisation and comparability (Herath & Albarqi, 2017).

According to the Financial Reporting Council of Nigeria [FRCN] (2023), most listed banks in Nigeria were able to meet the regulatory requirement of submitting their financial statements within the specified timeframe. This suggests a reasonable level of timeliness in financial reporting. The quality of financial reporting also relates to the transparency and adequacy of disclosures in the financial statements. While specific statistical data may not be readily available, transparency and disclosure requirements have been strengthened in recent years through regulatory reforms in Nigeria (Dabor & Dabor, 2015). These reforms aim to improve the quality and depth of disclosures made by listed companies, including deposit money banks.

It is important to note that the financial reporting quality of listed deposit money banks in Nigeria may vary among individual banks, and it is always advisable to refer to the most recent financial reports, regulatory publications, and industry-specific studies for the most accurate and up-to-date statistical information. Board characteristics, such as independence, size and expertise, can significantly impact the financial reporting quality of listed deposit money banks. A board with independent directors, relevant expertise, and diverse backgrounds is more likely to provide effective oversight, challenge management, and ensure accurate and transparent financial reporting. Board diligence and commitment to corporate governance practices also contribute to higher-quality financial reporting.

According to Moody (2019), the acquisition of Diamond Bank failed to revealed that, bad leadership, poor risk management, board's lack of independence and high volume of turnovers within the board among other factors contributed to the down fall of the bank. It was also reported that, the bank went from making profits of ₦28.5 billion in 2013 to making losses of around ₦9 billion in 2017. Although these factors appeared to reveal failure of corporate governance within the bank, the financial statements failed to communicate that to the users, particularly the shareholders. Hence, the need to examine the effect of board size and independence on financial reporting quality of listed deposit money banks in Nigeria with auditor independence as a moderator.

Although, several studies such as (Alzeban, 2020; Herath & Albarqi, 2017; Mahboub, 2017; Saleem et al., 2019; Vitolla et al., 2020) were conducted in developed and developing (Akeju & Babatunde, 2017; Ormin et al., 2015; Wisdom et al., 2021) economies like Nigeria revealed varying levels of relationship and effects between board characteristics variables and financial reporting quality, there is still the need to conduct such similar studies by incorporating other variables while moderating their effects on financial reporting quality of banks in Nigeria. Consequently, this study intends to examine the effect of board size on financial reporting quality of listed Nigerian Deposit Money Banks.

The main objective of the study is to examine the moderating effect of auditor's independence on board size and board independence on financial reporting quality of listed deposit money banks in Nigeria. Other specific objectives are to:

i. Assess the effect of board size on the financial reporting quality of listed deposit money banks in Nigeria.
ii. Examine the effect of board independence on the financial reporting quality of listed deposit money banks in Nigeria.

iii. Ascertain the effect of auditor independence on financial reporting quality of listed deposit money banks in Nigeria.
iv. Evaluate moderating effect of auditor independence on the relationship between board size and financial reporting quality of listed deposit money banks in Nigeria.
v. Examine the moderating effect of auditor independence on the relationship between board independence and financial reporting quality of listed deposit money banks in Nigeria.

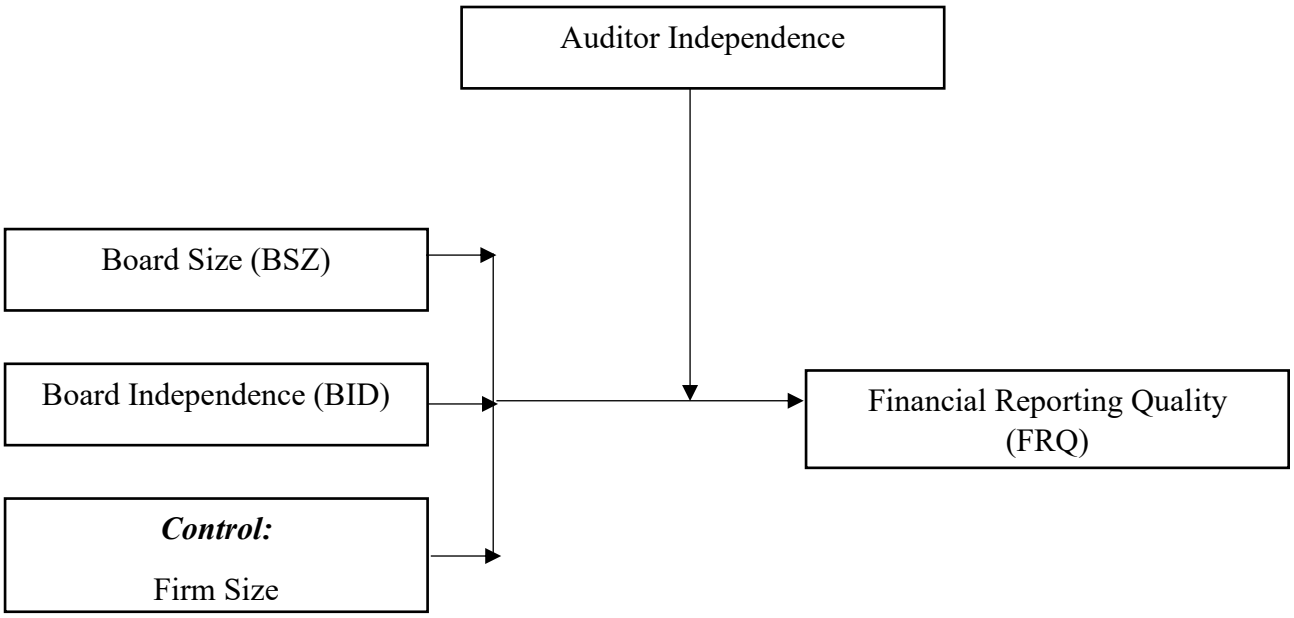
Financial reporting quality has consistently been discussed by researchers across the globe of which Nigeria is no exception. The harmonisation of the code of corporate governance in 2018 by the Financial Reporting Council of Nigeria (FRCN) ended the era of specific industry codes, resulting in the issuance of guidelines by the Central Bank of Nigeria (CBN) to enhance good corporate governance practices within the banking sector. This study is motivated by how these code and guidelines have helped in improving the financial reporting quality of listed deposit money banks in Nigeria. Hence, the remaining part of the study is divided into 2. Literature review; 3. Methodology; 4. Results and discussions and 5. Conclusion and recommendation.

2. Literature Review

This section, presents the conceptual framework which depicts the link between the independent variables, moderating variable and the dependent variable. In addition, the theoretical framework as well as the review of relevant empirical literatures are covered in this section of the study.

Conceptual Framework

The link between board size, board independence and financial reporting quality is depicted by the conceptual framework presented in Figure 1.



Source: Researcher's Conceptual Framework

Financial Reporting Quality (FRQ)

Financial reporting quality (FRQ) refers to the degree to which financial statements accurately represent a company's economic performance and position, providing reliable and relevant information for stakeholders' decision-making. High-

quality financial reporting is characterized by attributes such as faithful representation, verifiability, timeliness, and understandability (CFA Institute, 2025).

Recent studies have explored various determinants of FRQ. Awodiran and Ogundele (2022) found that firm size and asset tangibility positively influence FRQ among Nigerian industrial goods firms, while profitability and financial distress have negative effects. Additionally, Yohanna et al. (2024) demonstrated that audit quality significantly moderates the relationship between firm size and FRQ in Nigerian consumer goods companies. These findings underscore the multifaceted nature of FRQ and the importance of robust corporate governance mechanisms in enhancing the reliability of financial reports.

Board Size (BSZ)

Board size, defined as the total number of directors on a company's board, plays a crucial role in corporate governance and significantly influences financial reporting quality (FRQ). Recent studies present mixed findings regarding its impact. Evidence from Nigerian manufacturing firms indicates that larger boards enhance FRQ by bringing diverse expertise and improving oversight capabilities (Owolabi et al., 2023).

Conversely, a comparative study between Pakistani and UK firms suggests that an increase in board size may negatively affect FRQ, possibly due to coordination challenges and diluted accountability (Ali & Hassan, 2022). These discrepancies highlight the complexity of the relationship between board size and FRQ, suggesting that optimal board composition may vary based on contextual factors such as industry, firm size, and regional governance practices.

Board Independence (BID)

According to the code of corporate governance for public companies issued by the Nigerian Securities and Exchange Commission [SEC] (2011), an independent director is a non- executive, non-substantial shareholder of the company whose shareholdings directly or indirectly does not exceed 0.1% of the company's paid-up capital. In addition, the director must have not been previously employed or has no business or professional relationship with the company.

The term independent directors show their existence as the representative of independent shareholders (minority) as well as representing the interest of the investors. The definition of independent directors is the member of the board of directors that is not affiliated with the directors, member of other board of directors and the controlling shareholders, as well as independent from the business relations or other relations that may affect their ability to act independently or for the sake of the company's interest (Mrabure & Abhulimhen-Iyoha, 2020).

In short, independent director is the director that do not have family relationships or business relationship with the directors as well as the shareholders. Basically, all directors are independent(Al Azeez et al., 2019). It means that they have to be able to accomplish their task independently and see the interest of the company, and are free from any influence bearing the interest conflicting with the interest of the company (Orazalin, 2020). It refers to the avoidance of being unduly influenced by a vested interest and to being free from any constraints that would prevent a correct course of action being taken. It is an ability to 'stand apart' from inappropriate influences and to be free of managerial capture, to be able to make the correct and uncontaminated decision on a given issue he same could apply to non-executive directors (NEDs).

Auditor Independence

Auditor independence as the moderator of the study refers to an absence of interest by the auditor in the auditing assignment, thereby avoiding material bias that could affect the reliability and credibility of the financial statements. Generally, independence is in two forms i.e., independence of the mind and independence in appearance. The former, requires the auditor to have a "state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement allowing an individual to act with integrity and exercise objectivity and professional skepticism (Hayes et al., 2014). While independence in appearance requires the auditor to avoid situations that will cause others to conclude that they are not maintaining an unbiased objective attitude of mind (Nasser et al., 2016).

Auditor's independence may be defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach (Deangelo, 1981). Auditor's independence is seen as very important for the reliability and integrity of financial reporting (Mohammed & Joshua, 2012). Auditor independence not only comprises independence of mind but also may be more important in financial reporting, independence in appearance.

Theoretical Review

Theories provide an understanding of the link between independent variables and dependent variable. Hence, the Agency theory was used to underpin the study.

Agency Theory

The agency theory, propounded by Jensen and Meckling in their seminar paper in 1976 "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure," investigates the dynamics between principals and agents within organizations. Rooted in the assumption of self-interest, the theory acknowledges that individuals act to maximize their own well-being. Key assumptions include information asymmetry, where agents may possess more information than principals, and goal misalignment, leading to potential conflicts of interest.

Furthermore, the theory assumes risk and effort aversion, illustrating that agents may be less inclined to take risks or exert maximum effort, posing challenges in achieving perfect alignment between the goals of principals and agents. Agency theory provides a framework for understanding and managing the inherent conflicts and challenges in the principal-agent relationship through the design of effective contracts and incentive structures.

Agency theory provides a fundamental theoretical framework for understanding the dynamics of corporate governance and financial reporting quality within organizations (Jensen & Meckling, 1976). In the context of the study on Nigerian deposit money banks, agency theory offers valuable insights into how the relationships between board characteristics, auditor independence, and financial reporting quality are influenced by the agency relationship between managers (agents) and shareholders (principals).

Agency theory posits that conflicts of interest arise when managers, who act as agents, pursue their own interests rather than maximizing shareholder wealth (Jensen & Meckling, 1976). In the context of financial reporting quality, managers may have incentives to manipulate financial statements to present a favourable picture of the bank's performance, thereby enhancing their own reputations or compensation. Board

independence (BI) plays a crucial role in mitigating these conflicts by providing oversight and ensuring that financial reports accurately reflect the bank's financial position. The study's findings of a positive relationship between BI and financial reporting quality align with the agency theory's prediction that independent directors act in the best interests of shareholders, thereby reducing agency costs and improving transparency.

Agency theory highlights the information asymmetry between managers, who possess detailed knowledge of the firm's operations, and shareholders, who rely on financial reports to make informed decisions (Jensen & Meckling, 1976). High-quality financial reporting serves to reduce this information asymmetry by providing shareholders with accurate and timely information about the bank's performance. Auditor independence (AI) is essential in this context, as external auditors serve as independent gatekeepers who verify the accuracy of financial statements and provide assurance to shareholders. The study's exploration of the relationship between auditor independence and financial reporting quality reflects agency theory's emphasis on the importance of independent monitoring mechanisms to mitigate information asymmetry and agency costs.

Agency theory suggests that effective corporate governance mechanisms, such as board independence and external auditing, serve as monitoring and control mechanisms to align the interests of managers and shareholders (Jensen & Meckling, 1976). Board independence (BI) ensures that the board can effectively oversee management decisions and hold managers accountable for their actions. Similarly, auditor independence (AI) ensures that external auditors can provide objective assessments of the bank's financial statements without undue influence from management. The study's focus on these governance variables and their impact on financial reporting quality underscores the agency theory's proposition that strong governance mechanisms are essential for minimizing agency costs and maximizing shareholder value.

Empirical Review

Evidence from existing literature revealed varying levels and degree of relationship between board characteristics proxies and financial reporting quality. The review of empirical literature was done in accordance with the specific objectives of the study.

Board Size and Financial Reporting Quality

Kabwe (2023) explored how corporate governance attributes influence the quality of financial reporting within the context of a developing country. The study employed quantitative content analysis of annual reports and audited financial statements from Zambian-listed companies spanning 2012 to 2018. Using panel data analysis, a longitudinal approach was adopted. A Hausman test was conducted to determine the appropriate model, with panel regression analysis employed as the primary analytical tool. The results indicated a significant positive correlation between board size and financial reporting quality. However, it was noted that solely relying on the corporate governance system might not ensure high-quality financial information, potentially due to inadequacies in the governance framework. Hence, regulatory enforcement mechanisms should be strengthened to enhance financial reporting quality. This study addresses temporal and environmental gaps by extending the analysis to a ten-year period until 2022 and by focusing on Nigeria.

In contrast, Alsaadi et al. (2021) investigated the impact of corporate governance mechanisms on financial reporting quality among listed financial firms in Saudi Arabia. Specifically, the study assessed the influence of board size on financial reporting quality. Data were sourced from annual reports and accounts of 18 financial firms listed on the Saudi Stock Exchange from 2012 to 2017. Financial report quality was measured using discretionary accruals based on the modified Jones model (Dechow et al., 1995). The results did not demonstrate a statistically significant relationship between board size and financial report quality. The findings supported stakeholder theory, suggesting that high institutional ownership in listed firms encourages the disclosure of high-quality financial reports. However, the study did not provide evidence applicable to developing economies. Therefore, this study aims to bridge this gap by focusing on Nigeria and specifically on listed deposit money banks.

Board Independence and Financial Reporting Quality

Sinebe and Okolo (2023) investigated the potential impact of corporate board characteristics on Financial Reporting Quality (FRQ). They conducted an analysis on secondary data collected from 20 listed service firms over an eight-year period, utilizing the STATA 13 analytic tool. The results indicated that board size, board independence, and board gender diversity had no significant influence on the FRQ of listed service firms in Nigeria. This study's focus on service firms has created a sector-specific gap, prompting the current study to address this by examining deposit money banks in Nigeria.

Kangea (2023) explored the correlation between board characteristics of non-financial firms listed on the Nairobi Securities Exchange (NSE) and earnings quality. Specifically, the study investigated the impact of board independence on earnings quality, considering ownership concentration as a potential moderating variable. Data were collected from financial statements of 39 non-financial firms listed on the NSE from 2008 to 2020. The findings revealed a positive association between board size and accruals quality, emphasizing the importance of larger boards in shaping financial reporting practices. Additionally, board independence was found to significantly influence earnings quality. The study recommended non-financial firms prioritize the appointment of independent directors and foster collaborative environments among them. Despite covering a significant time span, the study left an environmental gap, prompting the current study to adapt the research framework to the Nigerian context to fill this void.

Ajibulu et al. (2021) examined six board of directors' characteristics (size, independence, meetings, tenure, gender, and expertise) and their impact on the quality of financial reports. Employing a correlational research design, the study analysed the influence of board quality on financial reports using twelve listed deposit money banks. The findings indicated that the board significantly influences the quality of financial reports. Specifically, an increase in the size of the board was associated with higher financial reporting quality. However, no evidence was found suggesting that board independence or meeting frequency, improved financial report quality. Among other recommendations, the study suggested increasing the number of board members to enhance financial reporting quality, while reducing board tenure to mitigate its negative impact.

3. Methodology

The study employed the ex-post facto research design in examining the effect of board size and independence on financial reporting quality of listed deposit money

banks in Nigeria: the moderating role of auditor independence. The study sampled twelve (12) deposit money banks out of a total population of fourteen (14) deposit money banks using purposive sampling technique in conjunction with two filters which include sampling firms that fall within the study period and had complete financial statements. The study focussed on a ten-year period from 2013 to 2023. The population and sample size of the study is as presented in Table 1.

Table 1

Population and Sample Size of Listed Deposit Money Banks as at December 31, 2023

S/N	Bank	Date Listed	Date Incorporated	Sample Size
1	Access Holdings Plc	November 18, 1998	February 8 1989	✓
2	EcoBank Transnational Inc.	September 11, 2006	October 3, 1985	*
3	FBN Holdings Plc	November 2 2012	August 13 2012	✓
4	FCMB Group Plc	June 21 2013	November 12, 2012	✓
5	Fidelity Bank Plc	May 17, 2005	November 19, 1987	✓
6	Guaranty Trust Holding Company Plc	January 17, 1990	January 2, 1990	✓
7	Jaiz Bank Plc	February 10 2017	April 2003	*
8	Stanbic IBTC Holdings Plc	November 23 2002	March 14 2012	✓
9	Sterling Bank Plc	August 17, 1993	November 25, 1960	✓
10	Union Bank Nig. Plc	January 1, 1979	May 30, 1969	✓
11	United Bank for Africa Plc	March 31, 1970	February 23, 1961	✓
12	Unity Bank Plc	December 22, 2005	April 27, 1987	✓
13	Wema Bank Plc	February 13, 1991	May 2, 1945	✓
14	Zenith Bank Plc	October 21, 2004	May 30, 1990	✓

Source: Compiled from NGX website, 2024.

Model Specification

The study adopted and modified the model developed by Ibrahim and Abubakar (2019) in examining the relationship between board size, board independence and financial reporting quality. The model was modified to allow for the moderating effect of auditor's independence. Thus, the modified model of this study is as defined in equation 3.

Financial Reporting Quality = f (Board Size, Board Independence) ----------(1)

FRQ = f (BS, BI, AI) ---------- (2)

Direct Model:

$FRQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 AI_{it} + \beta_4 FS_{it} + \mu_{it}$ ----------(3)

Indirect Model:

$FRQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BS*AI_{it} + \beta_4 BI*AI_{it} + \beta_5 AI_{it} + \beta_6 FS_{it} + \mu_{it}$ -------- (4)

Where: FRQ = Financial Reporting Quality; BS = Board Size; BI = Board independence; AI = Auditor Independence; FS = Firm size; β_0 = Constant; $\beta_1 - \beta_6$ = Coefficients; i = cross-section; and t = time.

Variable Definition, Measurement and Sources

This section presents a summary of variable measurements adopted in this study.

Table 2

Variable Measurement and Model Specification

Variable	Type	Proxy	Measurement	Source
Financial Reporting Quality	Dependent	Non-Discretionary Accruals (DACC)	Measured as Non-Discretionary Accruals (NDAC) using Modified Jones model as adapted	(Moses, 2019)
Board Characteristics	Independent	Board Size (BS)	Total number of directors on the board	Joseph et al. (2024).
		Board Independence (BI)	Proportion of non-executive directors on the board as a whole	(Rimamshung et al., 2023)
Auditor Independence	Moderator	Auditor independence (AI)	Natural logarithm of audit fee	(Joseph et al., 2024).
Firm Size	Control	Firm Size (FS)	Natural Log of All Assets	(Rimamshung et al., 2023)

Source: Extracted from literature, 2024

4. Results and Discussions

The panel data generated based on the measurements of variables employed were analysed and the random effect results presented and discussed as follows.

Table 3

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Minimum	Maximum
FRQ	132	.384	.173	.009	1.175
BI	132	.103	.157	0	.572
BS	132	8.788	1.791	7	13
AI	132	10.117	1.303	6.215	12.9
FS	132	12.034	.635	10.467	13.211

Source: Stata 16.0 Result Output

Financial Reporting Quality (FRQ) in this study is proxied by Non-Discretionary Accruals (NDAC) as derived from the Modified Jones Model. The mean value of FRQ is 0.384, suggesting that, on average, 38.4% of accruals reported by the listed deposit money banks are non-discretionary, indicating a moderate level of earnings quality. The standard deviation of 0.173 reflects a reasonable variation in the financial reporting practices among the sampled banks.

The minimum value of 0.009 shows that some banks have extremely low non-discretionary accruals, which may be indicative of higher earnings manipulation or lower transparency. On the other hand, the maximum value of 1.175 signifies that some firms have very high-quality reporting with minimal discretionary accruals. The wide range implies inconsistency in the application of accounting discretion among the

banks. This variation supports the inclusion of FRQ as the dependent variable in exploring the effects of board and auditor attributes. Overall, the descriptive statistics confirm that FRQ differs significantly across firms and over time, which provides a robust foundation for further analysis.

Board Independence (BI) is an important governance mechanism and is measured as the proportion of non-executive directors to the total number of directors on the board. The mean value of 0.103 indicates that, on average, only 10.3% of board members are independent in the sampled banks, which is relatively low compared to international governance standards. The standard deviation of 0.157 shows some level of variation in board independence across firms.

The minimum value of 0.000 suggests that some banks had no independent directors at all during the observation period, which may raise concerns about effective oversight. Meanwhile, the maximum value of 0.572 reflects a situation where over half the board comprises non-executive directors, indicating strong governance in some cases. The disparity in BI values suggests that different banks apply different governance structures, possibly due to regulatory flexibility or internal policy preferences. Since independent directors are expected to enhance board objectivity and accountability, their role in influencing financial reporting quality becomes crucial. The variability captured in BI supports its relevance as a predictor in the study. It also raises questions about whether a low level of independence correlates with lower reporting quality.

Board Size (BS) is a structural characteristic of the board and is measured as the total number of directors serving on the board of each bank. The mean value of 8.788 indicates that the average board size among the sampled banks is approximately nine members, which aligns with corporate governance guidelines in Nigeria. The standard deviation of 1.791 shows a modest spread in the number of directors across firms, indicating relative consistency.

The minimum board size is 7, while the maximum is 13, suggesting that all sampled firms comply with the minimum board size requirement stipulated by the Central Bank of Nigeria (CBN). A smaller board size may enhance communication and decision-making efficiency, while a larger board could offer diverse expertise and perspectives. However, excessively large boards might lead to coordination problems and reduced effectiveness.

The range of board sizes observed reflects differences in board composition strategy among banks, possibly influenced by ownership structure, bank size, or strategic orientation. As board size is a potential determinant of oversight quality, its inclusion as an independent variable aims to investigate how variations in board structure impact the quality of financial reporting. Overall, the descriptive statistics confirm a balanced yet varied distribution suitable for empirical testing.

Auditor Independence (AI) is the moderating variable in this study and is measured using the natural logarithm of audit fees. The average value of AI is 10.117, which implies that the sampled banks generally engage external auditors with a moderate to high fee structure, potentially indicating better audit quality. The standard deviation of 1.303 reveals a noticeable variation in audit fees, and by extension, in the perceived independence of auditors among the banks.

The minimum value of 6.215 shows that some banks paid relatively low audit fees, which might raise concerns about auditor independence and capacity. Conversely,

the maximum of 12.9 implies that some banks paid significantly higher fees, possibly engaging top-tier auditors with greater independence and objectivity. The assumption here is that higher audit fees reflect a more rigorous and independent audit process. However, this measure could also be influenced by firm size, complexity, and audit scope. The variation observed in audit fees justifies the inclusion of AI as a moderator in the relationship between board characteristics and financial reporting quality. It helps to assess whether a more independent audit environment strengthens or weakens the influence of the board on financial transparency.

Firm Size (FS), a control variable in the model, is measured using the natural logarithm of total assets, capturing the scale and financial capacity of each bank. The average value of 12.034 reflects that the sampled banks are large financial institutions, which aligns with the regulatory environment of Nigeria's deposit money banking sector. The standard deviation of 0.635 indicates low variability in firm size across the sample, suggesting that most banks operate within a comparable asset range.

The minimum firm size is 10.467, while the maximum is 13.211, revealing that some smaller banks are included alongside larger ones. Larger firms typically have more resources, more complex operations, and higher regulatory scrutiny, which may affect the quality of their financial reporting. They may also invest more in governance and audit mechanisms, thereby indirectly influencing FRQ. The moderate range observed in FS underscores the relevance of controlling for firm size when analyzing its effects on financial reporting outcomes. By including FS in the model, the study aims to isolate the impact of board and auditor characteristics from the confounding influence of organizational scale.

Table 4

Correlation Matrix

Variables	FRQ	BI	BS	AI	FS
FRQ	1.000				
BI	0.215*	1.000			
	(0.013)				
BS	-0.124	-0.069	1.000		
	(0.156)	(0.434)			
AI	0.118	0.210*	-0.094	1.000	
	(0.179)	(0.015)	(0.284)		
FS	0.398*	0.104	0.193*	0.042	1.000
	(0.000)	(0.234)	(0.026)	(0.634)	

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

Source: Stata 16.0 Result Output

The correlation matrix results presented in Table 4 show the strength and direction of the linear relationship between the study variables. Financial Reporting Quality (FRQ) is positively and significantly correlated with Board Independence (BI) at a 10% significance level (r = 0.215, p = 0.013), suggesting that greater board independence is associated with higher quality financial reporting.

FRQ also shows a moderate positive and highly significant correlation with Firm Size (FS) (r = 0.398, p = 0.000), indicating that larger banks tend to report more reliable financial information. However, FRQ is negatively but insignificantly related to Board Size (BS) (r = -0.124, p = 0.156), and positively but insignificantly related to

Auditor Independence (AI) (r = 0.118, p = 0.179), suggesting weak or no direct association.

BI is also significantly associated with AI (r = 0.210, p = 0.015), while BS has a weak but significant positive correlation with FS (r = 0.193, p = 0.026). The generally low correlation coefficients suggest no multicollinearity issues, supporting the suitability of the variables for further regression analysis.

Robustness Tests

These tests were carried out to ensure that the selected model for the study is the most appropriate. The Multicollinearity and Heteroskedasticity tests were conducted and the results discussed as follows.

Table 5

Multicollinearity Test

Variable	**VIF**	**1/VIF**
BS	1.056	0.947
BI	1.062	0.942
AI	1.055	0.948
FS	1.055	0.947
Mean VIF	1.057	
	Chi2(1)	**Prob>chi2**
Heteroskedasticity Test	14.93	0.3831

Source: Stata 16.0 Result Output

The results of the multicollinearity test presented in Table 5 indicate that multicollinearity is not a concern in this study. The Variance Inflation Factor (VIF) values for all independent and control variables are well below the commonly accepted threshold of 10. Specifically, Board Size (BS) has a VIF of 1.056, Board Independence (BI) has a VIF of 1.062, Auditor Independence (AI) shows a VIF of 1.055, and Firm Size (FS) also has a VIF of 1.055.

The mean VIF value of 1.057 further confirms that there is no harmful multicollinearity among the explanatory variables. The corresponding tolerance values (1/VIF) range between 0.942 and 0.948, which are comfortably above the minimum threshold of 0.1. These results suggest that the independent variables in the model are sufficiently distinct and do not overlap in measuring similar concepts, thus ensuring the stability and reliability of the regression coefficients.

The heteroskedasticity test result, also shown in Table 5, reports a Chi-square (χ^2) statistic of 14.93 with a p-value of 0.3831, which is greater than the 5% significance level. This indicates that the null hypothesis of homoskedasticity (constant variance of residuals) cannot be rejected. Therefore, there is no significant evidence of heteroskedasticity in the residuals of the regression model. The absence of heteroskedasticity implies that the variance of the error terms is constant across observations, which is one of the key assumptions of the classical linear regression model. This enhances the validity of the Ordinary Least Squares (OLS) estimates and supports the use of standard inferential techniques, such as t-tests and F-tests, for hypothesis testing in the study.

Table 6

Summary of Regression Results (Random Effect Model)

	Direct Model (REM)			Indirect Model (REM)		
FRQ	**Coef.**	**Z**	**P>|Z|**	**Coef.**	**Z**	**P>|Z|**
BS	0.1550	1.69	0.091	1.2577	1.10	0.270
BI	-0.0172	-2.00	0.045	-0.0485	-0.64	0.522
AI	0.0190	1.28	0.201	-0.0005	-0.01	0.993
BS*AI				-0.1030	-2,97	0.004
BI*AI				0.0029	0.40	0.686
FS	0.0244	0.85	0.394	0.0198	0.68	0.498
_cons	0.0335	0.09	0.927	0.3004	0.42	0.675
R-sq	0.1168			0.1589		
Wald chi2	9.60			21.67		
Prob>chi2	0.0478			0.0020		
LM Test	74.01		0.000	69.71		0.000

Source: Stata 16.0 Result Output

The fitness of the model in the direct model (Random Effects Model - REM) is evaluated through the R-squared value and Wald chi-square test. The R-squared value of 0.1168 indicates that approximately 11.68% of the variation in Financial Reporting Quality (FRQ) can be explained by the independent variables, including Board Size, Board Independence, Auditor Independence, and Firm Size. Although this is a relatively low R-squared value, it is important to note that in cross-sectional models such as this, R-squared values are typically lower due to the high level of variability in financial reporting quality.

Despite the low explanatory power, the Wald chi-square statistic of 9.60 ($p = 0.0478$) suggests that the overall model is statistically significant at the 5% level, implying that the independent variables jointly have a meaningful impact on FRQ. This supports the robustness of the direct model in explaining variations in financial reporting quality, even if the fit is not exceptionally high.

In the indirect model (Random Effects Model - REM), which includes interaction terms, the R-squared value increases slightly to 0.1589, suggesting that 15.89% of the variation in Financial Reporting Quality is explained by the independent variables and their interactions with Auditor Independence. While still a modest figure, the increase in R-squared from the direct to the indirect model indicates that the inclusion of interaction terms adds some explanatory power to the model, particularly in understanding the moderating effects of Auditor Independence.

Additionally, the Wald chi-square statistic of 21.67 ($p = 0.0020$) confirms that the model is statistically significant, with a stronger chi-square value than the direct model. This suggests that the inclusion of the interaction terms enhances the model's explanatory capability, making it a better fit for capturing the complexities of the relationship between governance characteristics and FRQ. Furthermore, the LM test results for both models ($p < 0.000$) support the choice of Random Effects, confirming the appropriateness of this model specification.

Board Size (BS) shows a positive and marginally significant relationship with Financial Reporting Quality (FRQ) in the direct model, with a coefficient of 0.1550, Z-value of 1.69, and p-value of 0.091. This indicates that an increase in the number of

board members slightly enhances the quality of financial reporting, possibly due to improved supervision and a diversity of expertise. However, in the indirect model, the interaction term BS*AI reveals a negative and highly significant effect (Coef. = -0.1030, Z = -2.97, p = 0.004), implying that greater auditor independence dampens the positive influence of board size on FRQ. This may suggest that external auditors assume a dominant oversight role in environments with strong audit independence, reducing the marginal value of a larger board. The shift in significance reflects a moderating dynamic, where board size alone is not uniformly beneficial unless considered alongside the independence level of the auditor.

Board Independence (BI) has a negative and statistically significant relationship with Financial Reporting Quality in the direct model, with a coefficient of -0.0172, Z-value of -2.00, and a p-value of 0.045. This finding suggests that a higher proportion of non-executive directors on the board may reduce the quality of financial reports, potentially due to limited participation in operational matters or inadequate knowledge of the firm's specifics.

In the moderated model, however, BI becomes insignificant (Coef. = -0.0485, Z = -0.64, p = 0.522), and its interaction with Auditor Independence (BI*AI) also lacks statistical significance (Coef. = 0.0029, Z = 0.40, p = 0.686). This implies that neither the presence of independent directors nor their interplay with auditor independence has a meaningful effect on FRQ when considered together. It highlights that the effectiveness of board independence in promoting reporting quality may be conditional upon their active involvement and contextual expertise.

The interaction between Board Size and Auditor Independence (BS*AI) reveals a negative and statistically significant effect on Financial Reporting Quality, with a coefficient of -0.1030, Z-value of -2.97, and a p-value of 0.004. This suggests that as auditor independence increases (proxied by higher audit fees), the positive influence of board size on financial reporting quality diminishes. In other words, when both internal (board structure) and external (auditor) monitoring mechanisms are strong, there may be overlapping controls, leading to potential inefficiencies or reduced effectiveness.

This finding implies a substitution effect, where highly independent auditors may compensate for or overshadow the role of a large board, thus moderating its impact negatively. It highlights the importance of aligning governance mechanisms rather than simply stacking them. The result is consistent with agency theory, which posits that excessive controls may sometimes counteract rather than complement each other.

The interaction between Board Independence and Auditor Independence (BI*AI) yields a positive but statistically insignificant effect on Financial Reporting Quality, with a coefficient of 0.0029, Z-value of 0.40, and a p-value of 0.686. This suggests that the interplay between a more independent board and an independent external auditor does not meaningfully influence the quality of financial reporting in the sampled deposit money banks.

The result may indicate a lack of synergy between internal and external governance forces when both are formally independent but possibly disconnected in practice. It also raises the possibility that independent directors may not be fully effective in financial oversight unless actively involved or well-versed in financial matters, regardless of auditor objectivity. The non-significant interaction highlights the limited complementary effect of board independence and auditor independence on

FRQ, suggesting that more than formal independence is required to ensure effective monitoring.

Auditor Independence (AI), measured by the natural logarithm of audit fees, has no significant direct impact on Financial Reporting Quality in either model. In the direct model, AI has a positive but insignificant coefficient of 0.0190, with a Z-value of 1.28 and p-value of 0.201, suggesting that audit independence alone does not substantially improve the accuracy of financial statements.

In the indirect model, the coefficient turns slightly negative (-0.0005), with a Z-value of -0.01 and p-value of 0.993, confirming a lack of direct effect. However, the moderating effect becomes relevant through its interaction with board size (BS*AI = -0.1030, p = 0.004), showing that AI weakens the positive effect of BS on FRQ. This implies that while AI may not independently enhance reporting quality, it significantly alters the influence of internal governance mechanisms like board structure, reinforcing its role as a moderator.

Firm Size (FS), used as a control variable and measured by the natural logarithm of total assets, shows no significant relationship with Financial Reporting Quality in both models. In the direct model, FS has a coefficient of 0.0244, Z-value of 0.85, and a p-value of 0.394.

In the indirect model, the coefficient slightly decreases to 0.0198, with a Z-value of 0.68 and p-value of 0.498. Although the coefficients are positive—hinting that larger banks might have better systems and structures to ensure quality reporting—the lack of statistical significance suggests this relationship is not robust. It implies that size alone does not determine the quality of financial disclosures in listed deposit money banks in Nigeria. Other factors such as governance culture, regulatory compliance, and internal control effectiveness may be more decisive in shaping financial reporting quality.

5. Conclusion and Recommendations

Based on the findings of the study, it can be concluded that the relationship between governance characteristics, auditor independence, and financial reporting quality in listed deposit money banks in Nigeria is complex and multifaceted. While Board Size (BS) has a marginally significant positive effect on financial reporting quality in the direct model, its impact is moderated negatively by Auditor Independence (AI), suggesting that strong external audit independence might reduce the marginal benefits of a larger board.

Board Independence (BI), on the other hand, shows a significant negative relationship with financial reporting quality in the direct model, but its interaction with auditor independence is insignificant, indicating that independent boards may not necessarily enhance reporting quality unless they are actively engaged.

Additionally, Auditor Independence itself does not have a direct significant impact on financial reporting quality, but its role as a moderator of other governance mechanisms is evident. The model's fitness is moderate, with the indirect model performing better in capturing the complexities of governance dynamics.

These findings underscore the importance of aligning both internal and external governance structures to enhance the quality of financial reporting, suggesting that a balance of effective board oversight and auditor independence is crucial in the Nigerian banking sector.

In line with the above conclusions, the following recommendations were made to address the concerns of stakeholders, policy makers and managers of deposit money banks in Nigeria.

i. It is recommended that listed deposit money banks in Nigeria enhance the training and involvement of independent directors to ensure they actively contribute to financial oversight and reporting quality. Furthermore, increasing the number of financial experts on the board may improve oversight.
ii. In addition, banks should consider optimizing board size to ensure that it is large enough to provide diverse perspectives but not so large that it becomes unwieldy or ineffective in decision-making.
iii. It is also recommended that banks prioritize maintaining a high level of auditor independence, with regular reviews of audit fees and procedures to ensure objectivity and transparency in financial reporting.

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