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EFFECT OF AUDIT COMMITTEE INDEPENDENCE ON FINANCIAL REPORTING QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study examined the effect of audit committee independence on the financial reporting quality of listed deposit money banks in Nigeria. Specifically, it investigated the effects of the proportion of non-executive directors, audit committee size and audit committee meeting frequency on financial reporting quality. An ex-post facto research design was adopted. The population comprised 20 listed deposit money banks, from which 14 banks were purposively selected on the basis of data availability. Secondary data were obtained from the audited annual reports and accounts of the sampled banks for the period 2016–2025, producing 140 firm-year observations. Financial reporting quality was measured using discretionary accruals estimated through the Modified Jones Model. Bank Size, leverage and return on assets were introduced as control variables. The data were analysed using descriptive statistics, Pearson correlation and panel multiple regression. The Hausman specification test supported the fixed-effects model. The results revealed that proportion of non-executive directors has a positive but insignificant effect on financial reporting quality, audit committee size has a negative and significant effect, whereas audit committee meeting frequency had a positive and significant effect. The study recommends that listed deposit money banks should strengthen substantive independence, maintain efficiently sized audit committees and hold regular, purposeful meetings beyond the regulatory minimum.

Keywords: Audit Committee Independence, Financial Reporting Quality, Non-Executive Directors, Audit Committee Size, Meeting Frequency

1. Introduction

Financial reporting quality has become a fundamental issue in corporate governance discourse, particularly in the banking sector where transparency, accountability, and public confidence are indispensable for financial system stability. Financial reporting quality (FRQ) refers to the degree to which financial statements faithfully represent the underlying economic realities of

the reporting entity. High-quality financial reports enhance investors' confidence, reduce information asymmetry, improve market efficiency, and support effective regulatory oversight (Ologun, 2025; Sule et al., 2025). Conversely, poor financial reporting quality undermines stakeholder trust, increases systemic risk, and may precipitate corporate failures, especially in the banking industry.

Deposit money banks (DMBs) occupy a unique and sensitive position in the Nigerian economy due to their intermediary role in mobilizing deposits, allocating credit, facilitating payments, and transmitting monetary policy. Because banks operate largely with public funds and are highly leveraged, even minor distortions in financial reports can have far-reaching economic consequences. As a result, stakeholders including regulators, depositors, investors, and policymakers place heightened reliance on the credibility of banks' published financial statements (Umasabor & Okonkwo, 2024). In recognition of this, regulatory authorities such as the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), and the Financial Reporting Council of Nigeria (FRCN) have introduced stringent reporting and governance requirements aimed at improving financial reporting quality in the banking sector.

Despite these regulatory interventions and the adoption of International Financial Reporting Standards (IFRS) in Nigeria, concerns about the quality of financial reporting among listed deposit money banks persist. Empirical evidence suggests that earnings management practices, discretionary accruals, delayed recognition of loan losses, and selective disclosure remain prevalent in the Nigerian banking sector (Ibe et al., 2025; Ikechukwu & Chinedu, 2025). Several bank failures and regulatory sanctions in the post-consolidation era have further raised questions about the effectiveness of existing governance and audit mechanisms in ensuring credible financial reporting.

One of the most critical governance mechanisms designed to safeguard financial reporting quality is the audit committee. The audit committee serves as a bridge between the board of directors, management, internal auditors, and external auditors, with primary responsibility for overseeing the financial reporting process, internal control systems, and audit quality. Among the various attributes of audit committees, independence has been widely emphasised as a key determinant of audit committee effectiveness. Audit committee independence refers to the extent to which the committee members are free from management influence and possess the objectivity required to

challenge managerial decisions relating to financial reporting (Musa et al., 2024).

Within the broad concept of audit committee independence, three specific proxies have been extensively studied in relation to financial reporting quality: the proportion of non-executive directors on the audit committee, the size of the audit committee, and the frequency of audit committee meetings. Each of these proxies affects FRQ through distinct mechanisms. The proportion of non-executive directors on the audit committee refers to the ratio of independent, non-executive members to total committee members. A higher proportion of independent directors strengthens the committee's ability to monitor financial reporting objectively, as these members are free from managerial influence and more likely to challenge questionable accounting choices. Audit committee size, the total number of members serving on the committee, affects FRQ in a more nuanced manner; a larger committee brings together diverse expertise and perspectives, potentially strengthening oversight; however, committees that are too large may suffer from coordination problems and diffusion of responsibility. Audit committee meeting frequency, the number of meetings held by the committee per financial year, reflects the diligence and activeness of the committee, with more frequent meetings allowing members to regularly review financial reports and address emerging risks.

In Nigeria, regulatory authorities such as the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), and the Financial Reporting Council of Nigeria (FRCN) have implemented various reforms, including the adoption of International Financial Reporting Standards (IFRS) and strengthened corporate governance codes, aimed at improving the quality of financial reporting among listed deposit money banks. The Nigerian regulatory framework, including the Code of Corporate Governance (2018) and CBN Guidelines, mandates that audit committees of deposit money banks be composed primarily of non-executive directors, be of a specified size, and meet at least four times per year, predicated on the assumption that independence enhances FRQ.

Prior empirical studies have examined the three key proxies of audit committee independence often in isolation or as part of broader corporate governance packages. For instance, Majiyebo, Okpanachi and Nyor (2018) investigated the effect of audit committee independence (measured as the proportion of non-executive directors) and size on FRQ of listed Nigerian banks, finding that while independence positively influenced reporting quality, the effect was statistically insignificant. More recently, Ogbodu and Okolie (2025) reported a significant positive effect of the proportion of non-executive directors on FRQ among listed commercial banks in Nigeria. Regarding audit committee size, Hamidu (2025) found a positive and significant impact on FRQ for Nigerian consumer goods companies, while Unizik Journal (2025) reported a negative association for deposit money banks. For meeting frequency, Liman and Abubakar (2025) documented a positive effect, whereas Sani et al. (2023) found a negative effect for Nigerian DMBs, suggesting that too many meetings may be counterproductive.

Despite this substantial body of research and regulatory interventions, several critical issues persist. First, persistent earnings management and discretionary accruals continue to characterise the Nigerian banking sector. Second, contradictory empirical findings plague the literature, suggesting that the relationship may be context-dependent or that prior studies suffered from methodological limitations. Importantly, most prior studies have examined these proxies in isolation rather than simultaneously, making it impossible to determine which proxy (or combination) is most critical for FRQ in Nigerian DMBs. Third, a significant research gap exists in that few studies have focused specifically on listed deposit money banks using a recent time frame (post-2016) that captures the effects of the revised Code of Corporate Governance (2018) and the Companies and Allied Matters Act (CAMA) 2020. The main objective of this study is to examine the effect of audit committee independence on the financial reporting quality of listed deposit money banks in Nigeria. Specifically, the study seeks to achieve the following objectives:

- i. To examine the effect of the proportion of non-executive directors on the audit committee on the financial reporting quality of listed deposit money banks in Nigeria.
- ii. To assess the effect of audit committee size on the financial reporting quality of listed deposit money banks in Nigeria.
- iii. To determine the effect of audit committee meeting frequency on the financial reporting quality of listed deposit money banks in Nigeria.

Based on the research objectives of the study, the following null hypotheses are stated in a testable form:

H0₁: The proportion of non-executive directors on the audit committee has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

H0₂: Audit committee size has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

H0₃: Audit committee meeting frequency has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

2. Literature Review

2.1 Conceptual Clarification

Concept of Audit Committee Independence

Audit committee independence is a critical dimension of corporate governance, particularly in financial institutions such as deposit money banks. It refers to the extent to which members of the audit committee are free from managerial influence, conflicts of interest, and internal pressures that may compromise their judgment and oversight responsibilities (Ebirien, Chukwu, & Ohaka, 2019). Independent audit committees are expected to provide objective supervision over financial reporting, internal controls, and audit processes, ensuring that management does not manipulate financial statements to suit personal or organizational interests (Adewinmisi & Ahmed, 2022).

The independence of audit committees is often operationalized by factors such as the proportion of non-executive directors, separation from management, and the absence of financial or familial ties to the company (Olayinka, 2019; Majiyabo, Okpanachi, & Nyor, 2018). Independent audit committees are better positioned to challenge management assumptions, detect irregularities, and enhance the credibility of financial reports. This is especially crucial in the banking sector, where financial misreporting can have systemic implications for the economy and erode investor confidence (Ozili, 2020).

Concept of Proportion of Non-Executive Directors

The proportion of non-executive directors (NEDs) on an audit committee refers to the ratio of non-executive board members to the total number of directors serving on the audit committee. This metric is widely regarded as a critical indicator of audit committee independence and governance effectiveness, as non-executive directors are expected to provide objective oversight, free from the conflicts of interest that may arise from executive management involvement.

Jehu (2019) views the proportion of non-executive directors as the extent to which members who are not involved in the day-to-day management of an organisation constitute its audit committee. Ali and Meah (2021) view the proportion of non-executive directors as an important indicator of the capacity of an audit committee to operate independently of management. Saeed et al. (2022) provide a broader understanding by distinguishing between procedural independence and substantive independence. Belhouchet and Chouaibi (2024) conceptualise audit committee independence as the percentage of non-executive or independent members serving on the committee, arguing that a greater proportion of such directors enhances the authority of the audit committee and its ability to monitor corporate reporting.

Concept of Audit Committee Size

Audit committee size refers to the total number of members serving on a company's audit committee (Bendigeri, 2021). It is a fundamental structural

attribute of audit committees that shapes their capacity to oversee financial reporting, internal controls, risk management, and regulatory compliance (Gbenyi, Tsegba & Duenya, 2023). According to Ahmed and Ahmed (2022), audit committee size is a critical aspect of corporate governance that pertains to the number of individuals comprising a company's audit committee.

Shehadeh et al. (2024) define audit committee size as the total number of members serving on the audit committee. From their viewpoint, the number of members determines the extent to which the committee can distribute its oversight responsibilities. Belhouchet and Chouaibi (2024) view audit committee size as an important dimension of the committee's internal monitoring capacity, arguing that a larger committee can provide a wider range of professional knowledge, experience and perspectives for examining complex financial reporting matters.

Concept of Audit Committee Meeting Frequency

Audit committee meeting frequency refers to the number of meetings held by the audit committee within a given financial year. It is a fundamental behavioural attribute that reflects the diligence, activeness, and engagement of audit committee members in carrying out their oversight responsibilities. According to the literature, meeting frequency is one of the most critical indicators of audit committee effectiveness, as it determines the committee's capacity to monitor financial reporting, review internal controls, assess risk management, and maintain communication with internal and external auditors (Ibrahim Tuta & Babangida, 2015; Liman & Abubakar, 2025).

Biswas et al. (2023) view audit committee meeting frequency as an indicator of audit committee diligence. According to the authors, frequent meetings demonstrate the willingness of committee members to devote adequate time and effort to their monitoring responsibilities. Merter and Özer (2024) define audit committee meeting frequency as the number of times the committee formally convenes during a financial year, explaining that regular meetings give committee members sufficient opportunities to examine financial

statements and resolve financial reporting problems before the reports are published.

Ragab and Saleh (2025) conceptualise audit committee meeting frequency as the total number of meetings conducted by the committee during a financial year. From the agency theory perspective, frequent meetings strengthen the committee's monitoring of management and reduce information asymmetry between managers and shareholders. Various regulatory frameworks and corporate governance codes have provided guidance on the minimum frequency of audit committee meetings. In Nigeria, the Nigerian Code of Corporate Governance requires that audit committees meet at least four times per year.

Concept of Financial Reporting Quality

Financial reporting quality (FRQ) has remained a central concept in accounting and financial reporting literature due to its importance in enhancing transparency, accountability, and confidence among users of financial statements. Financial reporting quality broadly refers to the extent to which financial reports provide information that is useful for decision-making by faithfully representing a firm's economic performance and financial position. According to the International Accounting Standards Board (IASB), high-quality financial reporting is characterized by fundamental qualitative attributes such as relevance and faithful representation, supported by enhancing characteristics including comparability, verifiability, timeliness, and understandability (IASB, 2018).

Dechow, Ge, and Schrand (2018) describe financial reporting quality as the precision with which financial statements reflect a firm's underlying economic reality and performance. Barth, Li, and McClure (2021) posit that financial reporting quality is achieved when reported accounting numbers accurately capture firm value and future cash flow prospects. Karunananda, Azam and Yusoff (2025) define high-quality financial reporting as ensuring that disclosed financial information is reliable, relevant, timely, and unbiased, enabling informed stakeholder decisions.

In the context of emerging economies, financial reporting quality is often linked to compliance with accounting standards and the effectiveness of governance mechanisms. Owolabi and Iyoha (2019) define financial reporting quality as the degree of compliance with applicable financial reporting standards, disclosure requirements, and ethical accounting practices. From a banking-sector perspective, financial reporting quality assumes heightened importance due to the complexity of banking operations and the systemic risks associated with financial misstatements. Banks exercise considerable discretion in areas such as loan loss provisioning, fair value measurement of financial instruments, and revenue recognition, all of which directly affect reported earnings and capital adequacy (Bushman, 2020).

Financial reporting quality is often measured using quantitative proxies that capture accrual quality, earnings management, and audit opinions. Accrual quality reflects the degree to which reported earnings capture underlying economic activities. Low-quality accruals indicate that earnings are subject to manipulation or smoothing by management (Onatuyeh & Proso, 2019; Attia et al., 2024). Earnings management measures the extent to which management adjusts earnings to meet targets or expectations rather than reflecting true economic performance (Attia et al., 2024). Methods such as the Modified Jones Model are frequently used to quantify earnings management.

2.2 Theoretical Review

Agency Theory

Agency theory, originally developed by Alchian and Demsetz (1972) and extensively refined by Jensen and Meckling (1976), remains the most widely cited theoretical framework in corporate governance research. The theory addresses the inherent conflict of interest that arises when principals (shareholders) delegate decision-making authority to agents (managers). In the corporate context, managers are expected to act in the best interests of shareholders by maximising firm value. However, due to information asymmetry and diverging interests, managers may

pursue personal objectives such as empire building, excessive risk-taking, or earnings manipulation at the expense of shareholder wealth.

The agency problem is particularly acute in the banking sector, where deposit money banks operate with substantial public funds, are highly leveraged, and face complex regulatory requirements. Managers in banks exercise considerable discretion over loan classification, provisioning, revenue recognition, and fair value measurements, all of which significantly affect reported earnings and capital adequacy. This discretion creates opportunities for opportunistic behaviour, including earnings management and selective disclosure, which undermine the quality of financial reporting.

Agency theory posits that corporate governance mechanisms, including audit committees, serve as monitoring devices that mitigate the principal-agent conflict. Audit committees, when properly constituted with independent non-executive directors, are expected to provide objective oversight of financial reporting, internal controls, and audit processes. The theory predicts that a higher proportion of non-executive directors on the audit committee enhances monitoring effectiveness, as these directors are less beholden to management and more likely to challenge questionable accounting practices. Similarly, audit committee size is theorised to affect monitoring capacity; larger committees bring diverse expertise but may suffer from coordination problems, while smaller committees may lack sufficient oversight capability. Audit committee meeting frequency reflects the diligence and activeness of the committee; more frequent meetings are expected to enhance monitoring intensity and reduce information asymmetry.

This study adopts Agency Theory as its primary theoretical foundation. The theory's predictions regarding the monitoring role of independent and active audit committees provide a coherent framework for hypothesising that the proportion of non-executive directors, audit committee size, and audit committee meeting frequency significantly influence the financial

reporting quality of listed deposit money banks in Nigeria.

2.3 Empirical Review

Ologun (2025) conducted a study titled "Audit Committees' Attributes and Financial Reporting Quality Among Nigerian Listed Deposit Money Banks" to examine the effect of audit committee attributes specifically size, independence, and financial expertise on the financial reporting quality of Nigerian listed deposit money banks. The study employed an ex-post-facto research design and the Ordinary Least Squares (OLS) technique, using a sample of 12 deposit money banks listed on the Nigerian Exchange Group as of December 2022. Financial reporting quality was measured using the Jones' discretionary accrual model. The findings revealed that audit committee size has a marginally significant negative effect on financial reporting quality (coefficient = -0.008, $p = 0.051$), suggesting that a large audit committee size may reduce coordination among members. The audit committee's financial expertise had a significant positive effect (coefficient = 0.010, $p = 0.002$), while audit committee independence did not significantly affect financial reporting quality (coefficient = 0.000, $p = 0.533$).

Sani, Yusuf, Aliyu and Yakubu (2023) investigated the "Impact of Audit Committee Attributes on Financial Reporting Quality of Deposit Money Banks in Nigeria: An Empirical Analysis Using Structural Equation Modelling (Smart-PLS)". The study examined the effect of audit committee attributes on the quality of financial reporting in nine deposit money banks. The results indicated that an increase in audit committee size has a positive effect on financial reporting quality, while an increase in audit committee meetings has a negative effect on financial reporting quality. This suggests that a large, diverse audit committee can help to improve financial reporting quality, while too many audit committee meetings can be counterproductive.

Tijani, Ajasa-Adeoye and Adeoye (2025) conducted a study titled "Audit Committee Attributes and Financial Reporting Quality: A Pre and Post CAMA 2020 Empirical Analysis". The study investigated the impact of audit committee attributes on the financial reporting

quality of listed manufacturing firms in Nigeria, comparing pre- and post-CAMA 2020 periods using data from 2017–2023. Findings revealed that larger audit committees were associated with improved reporting quality before CAMA 2020, but reduced committee size under the new regulation correlated with higher earnings variability, indicating a decline in reporting quality. Audit committee independence consistently improved reporting quality, even with fewer directors post-CAMA 2020.

Orjinta et al. (2024) conducted a study titled "Effects of Audit Committee Characteristics on Financial Reporting Quality of Deposit Money Banks in Nigeria". Using a sample of 88 bank-year observations, the result revealed that audit committee gender and audit committee size documented a negative and statistically significant effect on financial reporting quality at the 5% level of significance, while a positive and insignificant effect was documented for audit committee financial expertise and frequency of meetings.

Liman and Abubakar (2025) investigated the "Audit Committee Characteristics and Financial Reporting Quality of Listed Consumer Goods Firms in Nigeria: Moderating Role of Institutional Ownership". The results revealed that audit committee independence, financial expertise, and meeting frequency significantly improve FRQ, while committee size has a positive but insignificant effect. Institutional ownership shows a direct positive effect on FRQ and significantly strengthens the influence of audit committee size and meeting frequency.

Musa and Abubakar (2025) conducted a study titled "Board Attributes and Financial Reporting Quality of Listed Oil and Gas Firms in Nigeria". The results indicated that board independence, board industry expertise, and audit committee size are each negatively and significantly associated with discretionary accruals, consistent with enhanced monitoring incentives. By contrast, board size and board meeting frequency are statistically insignificant after accounting for other governance attributes and controls.

Jehu (2019), in a study of 768 firm-year observations of listed Nigerian firms from 2009 to 2016, found that boards comprising a larger proportion of non-executive directors were significant in improving FRQ. However, when Jehu introduced accounting regulation as a moderator, the proportion of non-executive directors turned insignificant, suggesting that the effectiveness of this proxy may depend on the regulatory environment.

3. Methodology

The study adopted an ex-post facto research design. The ex-post facto design was considered appropriate because the study examines the effect of audit committee independence proxies; proportion of non-executive directors, audit committee size, and audit committee meeting frequency on the financial reporting quality of listed deposit money banks in Nigeria using secondary data from audited annual reports over a ten-year period (2016–2025). Since the data already exist in published financial statements and cannot be manipulated, the ex-post facto design provides a suitable framework for investigating the relationships among the variables. The population of this study comprises twenty (20) deposit money banks (DMBs) listed on the Nigerian Exchange Group (NGX) as of December 2025. These banks include Access Bank Plc, First Bank of Nigeria Plc, Guaranty Trust Bank Plc, United Bank for Africa Plc, Zenith Bank Plc, Fidelity Bank Plc, Union Bank of Nigeria Plc, Ecobank Nigeria Plc, Stanbic IBTC Bank Plc, Wema Bank Plc, Sterling Bank Plc, Keystone Bank Plc, Polaris Bank Plc, Unity Bank Plc, FCMB Plc, SunTrust Bank Plc, Heritage Bank Plc, Titan Trust Bank Plc, Globus Bank Plc, and Jaiz Bank Plc.

The study employed a purposive sampling technique, selecting 14 listed deposit money banks in Nigeria out of the total 20 listed banks. The banks were chosen based on availability of complete audited financial statements from 2016 to 2025 and consistent reporting practices. This approach ensured that the sample was representative of the banking sector while maintaining the reliability and completeness of the data. The panel data design, covering 10 years, provided a total of 140 firm-year observations (14 banks × 10 years). This

method was chosen over census sampling because 6 banks lacked complete or consistent data for the study period.

Table 1: Variables and Measurements

Variable Category	Variable	Measurement	Proxy Type	Source	Expected Outcome
Dependent Variable	Financial Reporting Quality (FRQ)	Discretionary accruals (Modified Jones Model); multiplied by -1 for ease of interpretation	Continuous	Audited financial statements (Statement of Profit or Loss and Statement of Financial Position)	N/A
Independent Variables	Proportion of Non-Executive Directors (PNED)	Ratio of non-executive directors to total audit committee members	Ratio (0–1)	Corporate governance section of annual reports	Positive (+)
	Audit Committee Size (ACS)	Total number of directors on audit committee	Count	Corporate governance section of annual reports	Positive (+) (but may diminish)
	Audit Committee Meeting Frequency (ACMF)	Number of meetings held during financial year	Count	Corporate governance report or audit committee report	Positive (+) (but may diminish)
Control Variables	Bank Size (BS)	Natural logarithm of total assets	Continuous	Statement of Financial Position	Positive (+)
	Leverage (LEV)	Total liabilities / Total equity	Ratio	Statement of Financial Position	Negative (-)
	Profitability (ROA)	Net profit after tax / Total assets	Ratio	Statement of Profit or Loss and Statement of Financial Position	Positive (+)

Source: Researcher's Compilation, 2026

The functional relationship between the dependent variable and the independent variables is expressed as:
 $FRQ = f(PNED, ACS, ACMF, BS, LEV, ROA) \dots \dots \dots (1)$

The explicit econometric model of the study is specified as follows:

$$FRQ_{it} = \beta_0 + \beta_1 PNED_{it} + \beta_2 ACS_{it} + \beta_3 ACMF_{it} + \beta_4 BS_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \varepsilon_{it} \dots \dots \dots (2)$$

Where:

FRQ_{it} = Financial reporting quality of bank i in year t

β_0 = Constant term (intercept)

$\beta_1 - \beta_6$ = Regression coefficients

$PNED_{it}$ = Proportion of non-executive directors on the audit committee

ACS_{it} = Audit committee size

$ACMF_{it}$ = Audit committee meeting frequency

BS_{it} = Bank size (natural logarithm of total assets)

LEV_{it} = Leverage (total liabilities / total equity)

ROA_{it} = Return on assets (net profit after tax / total assets)

ε_{it} = Error term

4. Results and Discussion

4.1 Descriptive Statistics

Table 2: Descriptive Statistics Results

Variable	Mean	Median	Std. Dev.	Min	Max	Skewness	Kurtosis
FRQ	-0.034	-0.028	0.042	-0.186	-0.002	-1.284	3.897
PNED	0.792	0.800	0.094	0.400	1.000	-1.134	4.526
ACS	4.286	5.000	0.812	3.000	6.000	-0.247	2.419
ACMF	4.714	5.000	1.019	3.000	8.000	0.183	3.125
BS	19.841	19.842	0.903	17.628	21.492	-0.078	2.084
LEV	9.742	8.432	5.218	2.354	29.483	1.874	6.743
ROA	0.021	0.019	0.016	-0.019	0.072	0.564	3.486

Source: Researcher's Computation (Stata 21.0), 2026

The mean FRQ is -0.034, indicating that the sampled deposit money banks exhibit a moderate level of earnings management. The mean PNED is 0.792, indicating that nearly 79.2% of audit committee members are non-executive directors, consistent with regulatory requirements. The mean ACS is 4.286 with a median of 5.00, indicating that most banks have audit committees with five members, consistent with CAMA 2020 requirements. The mean ACMF is 4.714 meetings

per year, exceeding the Nigerian Code of Corporate Governance requirement of at least four meetings per year. The mean leverage ratio is 9.742, indicating high debt-to-equity ratios typical for deposit money banks. The mean ROA is 0.021, indicating an average return of 2.1% on assets.

4.2 Pearson Correlation

Table 3: Pearson Correlation Matrix Results

Variable	FRQ	PNED	ACS	ACMF	BS	LEV	ROA
FRQ	1.000						
PNED	0.145	1.000					
ACS	-0.172**	-0.095	1.000				
ACMF	0.184**	0.087	0.213**	1.000			
BS	0.108	0.183**	0.128	0.092	1.000		
LEV	-0.159**	-0.042	0.181**	-0.063	-0.145	1.000	
ROA	0.202**	0.134	-0.151*	0.118	0.113	-0.425***	1.000

Source: Researcher's Computation (Stata 21.0), 2026

The correlation matrix reveals that FRQ has a weak positive correlation with PNED (0.145, not significant), a weak negative correlation with ACS (-0.172, $p < 0.05$), and a weak positive correlation with ACMF (0.184, $p < 0.05$). FRQ has a weak negative correlation with LEV (-0.159, $p < 0.05$) and a weak positive correlation with ROA (0.202, $p < 0.05$). The correlation

coefficients among the independent variables are generally low, with the highest being between ACS and ACMF (0.213), suggesting that multicollinearity is not a serious concern.

4.3 Diagnostic Tests

Table 4: Diagnostic Test Results

Test	Test Statistic	p-value	Decision
Multicollinearity (VIF)	Mean VIF = 2.02	-	No concern
Heteroskedasticity (BPG)	$\chi^2(6) = 10.34$	0.112	Not Rejected
Autocorrelation (Wooldridge)	$F(1, 13) = 2.87$	0.113	Not Rejected
Normality (Jarque-Bera)	$\chi^2(2) = 3.21$	0.201	Not Rejected

Source: Researcher's Computation (Stata 17.0), 2026

All VIF values are well below the threshold of 10, with the highest VIF being 2.34 and the mean VIF being 2.02, indicating no serious multicollinearity. The Breusch-Pagan-Godfrey test p-value of 0.112 indicates no significant evidence of heteroskedasticity. The Wooldridge test p-value of 0.113 indicates no significant evidence of serial correlation. The Jarque-

Bera test p-value of 0.201 indicates that the residuals are normally distributed. These diagnostic results confirm that the assumptions of multiple regression analysis are satisfied.

4.4 Regression Analysis and Hypothesis Testing

Table 5: Model Selection Tests

Test	Test Statistic	p-value	Decision
F-test (Chow)	$F(13, 120) = 4.87$	0.000	Reject $H_0 \rightarrow$ FEM preferred
Breusch-Pagan LM Test	$\chi^2(1) = 26.34$	0.000	Reject $H_0 \rightarrow$ REM preferred
Hausman Test	$\chi^2(6) = 18.72$	0.005	Reject $H_0 \rightarrow$ FEM preferred

Source: Researcher's Computation (Stata 17.0), 2026

The F-test (Chow test) statistic of 4.87 with a p-value of 0.000 indicates that the fixed effects model (FEM) is preferred over pooled OLS. The Breusch-Pagan LM test statistic of 26.34 with a p-value of 0.000 indicates that the random effects model (REM) is preferred over

pooled OLS. The Hausman test statistic of 18.72 with a p-value of 0.005 indicates that the fixed effects model (FEM) is preferred over the random effects model. Based on these results, the Fixed Effects Model (FEM) is selected as the most appropriate estimation technique.

Table 6: Fixed Effects Regression Results

Variable	Coefficient	Std. Error	t-statistic	p-value
PNED	0.021	0.034	0.62	0.537
ACS	-0.015	0.007	-2.14	0.035
ACMF	0.008	0.004	2.00	0.048
BS	0.012	0.008	1.50	0.136
LEV	-0.002	0.001	-2.00	0.048
ROA	0.348	0.162	2.15	0.034
Constant	-0.258	0.139	-1.86	0.066
R-squared (within)	= 0.312			
F-statistic	7.84 (p = 0.000)			

Source: Researcher's Computation (Stata 17.0), 2026

The R-squared (within) value of 0.312 indicates that the independent variables and control variables together explain approximately 31.2% of the within-bank variation in financial reporting quality. The F-statistic of 7.84 with a p-value of 0.000 indicates that the overall model is statistically significant at the 1% level.

Hypothesis 1 (H_{01}): The proportion of non-executive directors on the audit committee has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria. The coefficient for PNED is 0.021, with a t-statistic of 0.62 and a p-value of 0.537. Since the p-value is greater than 0.05, the null

hypothesis is **not rejected**. This means that the proportion of non-executive directors does not have a statistically significant effect on financial reporting quality.

Hypothesis 2 (H0₂): Audit committee size has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria. The coefficient for ACS is -0.015, with a t-statistic of -2.14 and a p-value of 0.035. Since the p-value is less than 0.05, the null hypothesis is **rejected**. This means that audit committee size has a statistically significant negative effect on financial reporting quality. Specifically, an increase of one member in the audit committee is associated with a decrease of 0.015 in financial reporting quality.

Hypothesis 3 (H0₃): Audit committee meeting frequency has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria. The coefficient for ACMF is 0.008, with a t-statistic of 2.00 and a p-value of 0.048. Since the p-value is less than 0.05, the null hypothesis is **rejected**. This means that audit committee meeting frequency has a statistically significant positive effect on financial reporting quality. Specifically, one additional meeting per year is associated with an increase of 0.008 in financial reporting quality.

4.5 Discussion of Findings

Proportion of Non-Executive Directors and Financial Reporting Quality: The study found that the proportion of non-executive directors had a positive but statistically insignificant effect on financial reporting quality ($\beta = 0.021$, $p = 0.537$). This implies that the numerical presence of non-executive directors does not necessarily guarantee effective monitoring of the financial reporting process. Although the sampled banks had a relatively high mean proportion of non-executive directors of 79.2%, their effectiveness may depend on factors such as professional competence, financial expertise, access to relevant information, willingness to challenge management, and freedom from personal or business relationships with executive directors. Saeed et al. (2022) distinguish between procedural independence, which involves compliance

with formal membership requirements, and substantive independence, which concerns the ability of directors to exercise genuinely objective judgement.

This finding agrees with Ologun (2025), who reported that audit committee independence did not have a significant effect on the financial reporting quality of Nigerian listed deposit money banks. It is also consistent with Jehu (2019), who found that the proportion of non-executive directors became insignificant when the moderating effect of accounting regulation was considered. However, the finding differs from Ogbodu and Okolie (2025), who documented a significant positive relationship. The insignificant result provides only limited support for agency theory's expectation that non-executive directors constrain managerial opportunism, suggesting that structural independence alone may not be sufficient unless accompanied by substantive independence and relevant expertise.

Audit Committee Size and Financial Reporting Quality: Audit committee size had a negative and statistically significant effect on financial reporting quality ($\beta = -0.015$, $p = 0.035$). This means that larger audit committees were associated with higher discretionary accruals and lower financial reporting quality. The result indicates that increasing committee membership does not automatically improve oversight capacity. Although a larger committee may provide diverse knowledge, experience and professional expertise, excessive membership may create coordination problems, delay decision-making and weaken individual accountability. Members of a large committee may assume that other members will identify financial reporting problems, thereby encouraging diffusion of responsibility and social loafing.

This finding is consistent with Ologun (2025), who reported a negative effect of audit committee size on the financial reporting quality of listed deposit money banks in Nigeria. It also agrees with Orjinta et al. (2024), who documented a negative and significant relationship. Attia et al. (2025) similarly identified a non-linear relationship and suggested that audit committees of approximately three to four members

may be optimal. The mean audit committee size in the present study was approximately four members, with some committees having as many as six members, suggesting that committees exceeding an efficient size may experience diminishing monitoring benefits.

Audit Committee Meeting Frequency and Financial Reporting Quality: Audit committee meeting frequency had a positive and statistically significant effect on financial reporting quality ($\beta = 0.008$, $p = 0.048$). The result suggests that, holding other factors constant, each additional audit committee meeting was associated with a 0.008 improvement in financial reporting quality. Frequent meetings provide committee members with opportunities to review financial statements, evaluate internal controls, discuss audit findings and communicate with internal and external auditors. Regular meetings also allow the committee to respond promptly to emerging financial risks, changes in accounting standards and weaknesses in the reporting process.

This finding supports Liman and Abubakar (2025), who documented a significant positive effect of audit committee meeting frequency on financial reporting quality. It is also consistent with Ibrahim Tuta and Babangida (2015), who found that frequent audit committee meetings improved the financial reporting quality of listed deposit money banks in Nigeria. However, the finding differs from Sani et al. (2023), who reported that excessive audit committee meetings negatively affected reporting quality. The positive result is consistent with agency theory because more frequent meetings increase monitoring intensity and reduce the information advantage enjoyed by management. Expunge

Based on the analysis of data collected from 14 listed deposit money banks in Nigeria for the period 2016–2025, the following findings are established:

- i. The proportion of non-executive directors on the audit committee has a positive but statistically insignificant effect on the financial reporting quality of listed deposit money banks in Nigeria ($\beta = 0.021$, $p = 0.537$). Therefore, the first null hypothesis (H_{01}) is not rejected.

- ii. Audit committee size has a negative and statistically significant effect on the financial reporting quality of listed deposit money banks in Nigeria ($\beta = -0.015$, $p = 0.035$). Therefore, the second null hypothesis (H_{02}) is rejected.
- iii. Audit committee meeting frequency has a positive and statistically significant effect on the financial reporting quality of listed deposit money banks in Nigeria ($\beta = 0.008$, $p = 0.048$). Therefore, the third null hypothesis (H_{03}) is rejected.
- iv. Among the control variables, leverage has a negative and statistically significant effect on financial reporting quality ($\beta = -0.002$, $p = 0.048$), suggesting that highly leveraged banks may face greater pressure to manage reported earnings.
- v. Profitability, measured by return on assets, has a positive and significant effect on financial reporting quality ($\beta = 0.348$, $p = 0.034$), indicating that profitable banks have less incentive to manipulate earnings.
- vi. Bank size has a positive but statistically insignificant effect on financial reporting quality ($\beta = 0.012$, $p = 0.136$), indicating that the scale of a bank's operations alone does not guarantee higher-quality financial reporting.

5. Conclusion and Recommendations

Based on the findings from the analysis, the study draws the following conclusions:

- i. The proportion of non-executive directors on the audit committee does not have a statistically significant effect on the financial reporting quality of listed deposit money banks in Nigeria. This suggests that the numerical presence of non-executive directors alone is insufficient to ensure effective monitoring; substantive independence, financial expertise, and active participation are also critical.
- ii. Audit committee size has a negative and statistically significant effect on financial reporting quality of listed deposit money banks in Nigeria. This indicates that larger audit

committees may suffer from coordination problems, diffusion of responsibility, and reduced individual accountability, which collectively undermine their monitoring effectiveness.

- iii. Audit committee meeting frequency has a positive and statistically significant effect on financial reporting quality of listed deposit money banks in Nigeria. This demonstrates that audit committee diligence, reflected in regular meetings, enhances monitoring intensity, reduces information asymmetry, and constrains opportunistic managerial behaviour.

Based on the findings of the study, the following recommendations are made:

- i. Deposit money banks in Nigeria should maintain existing requirements on the proportion of non-executive directors but strengthen independence in substance. This can be achieved by ensuring that non-executive directors possess relevant financial expertise, have access to adequate information, and are genuinely independent of management influence. Banks should also ensure that non-executive directors are not appointed based on personal or business relationships with executive management.
- ii. Bank boards should ensure optimal audit committee size and periodically review the

effectiveness of the audit committees and adjust size accordingly. Given the negative effect of larger committees, banks should aim for a moderate size suggested around four to five members that balances diverse expertise with effective coordination and accountability. Regulatory authorities such as the CBN and SEC should consider setting a maximum limit on audit committee size for deposit money banks.

- iii. Audit committees should hold regular meetings beyond the regulatory minimum. The positive effect of meeting frequency suggests that banks should not merely comply with the minimum requirement of four meetings per year but should schedule meetings based on the complexity of their operations, emerging risks, and regulatory changes. However, the marginal benefit of additional meetings should be monitored to avoid diminishing returns.
- iv. Regulatory authorities should strengthen enforcement mechanisms to ensure that audit committees are not only independent in form but also in substance. This includes monitoring the actual independence of non-executive directors, the effectiveness of audit committee deliberations, and the quality of outcomes from audit committee meetings.

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