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BOARD STRUCTURE AND FINANCIAL REPORTING QUALITY OF NIGERIAN LISTED DEPOSIT MONEY BANKS

Corporate governance is a theory in which management supervision facilitates the decision-making process, both in public and private organizations. The study investigated the outcome of board characteristics such as the board size and board composition, audit committee size, leverage, and firm size on earning management (financial reporting quality) in listed deposit money banks in Nigeria from 1999 to 2018. The study employed a panel regression technique to analyse the relationship between financial reporting quality and board structure. Also, to determine the appropriateness of the estimation technique to adopt Hausman tests was carried out. For the determination of earnings management and to separate nondiscretionary accrual (NDAC) constituents from the total accruals (TA) to arrive at discretionary accrual (DAC) components, the studies of the Jones model (1991), as modified by Dechow and Sloan (1995) used. The Hausman test result revealed that Random Effect was the most appropriate estimator, in line with the null hypothesis. It was confirmed by the Breusch-Pagan Lagrangian multiplier, while the Breusch-Pagan/Cook-Weisberg test confirmed no heteroskedasticity. Panel regression results showed that (board size and board composition) has a significant positive impact on financial reporting quality. However, audit committee size and Leverage have positive but insignificant relation. Besides, firm size has a significant adverse effect on the dependent variable. In contrast, Leverage has a positive but no impact on the financial reporting quality of deposit money banks in Nigeria. The inferences are that board size, board composition,n, and firm size are significant variables influencing Nigeria's financial reporting quality. Therefore, the study recommends that banks and regulatory authorities check the excessive acquisition of assets and numerical increase in audit committee members to enhance commercial banks' financial reporting quality in Nigeria.

Key words: Board characteristics, Financial Reporting Quality, Deposit Money Banks.

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Нигериядағы депозиттік банктердің басқарма құрылымы және қаржылық есептілік сапасы

Корпоративті басқару – бұл мемлекеттік және жеке ұйымдарда шешім қабылдауды жеңілдететін басқаруды қадағалау теориясы. Зерттеу барысында 1999-2018 жылдар аралығында Нигериядағы депозиттік банктердегі басқарма құрамы, саны, аудиторлық комитет, левередж және фирма мөлшері сияқты басқарма сипаттамаларының кірістерді басқаруға (қаржылық есептіліктің сапасы) әсері зерттелді. Қаржылық есептіліктің сапасы мен директорлар кеңесінің құрылымы арасындағы байланысты талдау үшін панельдік регрессия әдісі қолданылды. Сондай-ақ, бағалау әдіснамасының сәйкестігін анықтау үшін Хаусман тесті өткізілді. Кірістерді басқаруды анықтау және дискрециялық емес есептеу компоненттерін (NDAC) жалпы есептелімдерден бөлу (TA) дискрециялық есептеу компоненттерін (DAC) алу үшін Jones (1991) және Dechow және Sloan (1995) модельдері бойынша жүргізілді. Хаусман тестінің нәтижесі кездейсоқ эффект моделі нөлдік гипотеза бойынша ең қолайлы екенін көрсетті. Мұны Брейш-Паганның Лагранж мультипликаторы растады, ал Брейш-Паган / Кук-Вайсберг сынағы гетероскедастиканың жоқ екенін көрсетті. Панельдік регрессияның нәтижелері көрсеткендей, директорлар кеңесінің құрамы мен саны қаржылық есептіліктің сапасына айтарлықтай оң әсер етеді. Алайда, аудиторлық комиссияның құрамы мен левереджбдің аз болса да, оң әсері бар. Сонымен қатар, фирма мөлшері тәуелді айнымалыға айтарлықтай жағымсыз әсер етеді. Керісінше, левередж Нигериядағы депозиттік банктердің қаржылық есептілігінің сапасына жағымды, бірақ шамалы әсер етеді. Директорлар кеңесінің саны, директорлар кеңесінің құрамы және фирманың мөлшері Нигериядағы қаржылық есептіліктің сапасына әсер ететін маңызды айнымалылар болып табылады деген қорытындыға келді. Осылайша, зерттеу банктер мен реттеуші органдарға Нигериядағы коммерциялық банктердің қаржылық есептілігінің сапасын жақсарту үшін аудиторлық комитеттегі артық активтерді сатып алу мен мүшелер санын арттыруды ұсынды.

Түйін сөздер: басқарманың сипаттамасы, қаржылық есептіліктің сапасы, депозиттік банктер.

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Структура правления и качество финансовой отчетности Нигерийских депозитных банков

Корпоративное управление – это теория, согласно которой надзор со стороны руководства облегчает процесс принятия решений как в государственных, так и в частных организациях. В исследовании изучалось влияние таких характеристик совета директоров, как размер и состав совета директоров, размер комитета по аудиту, левередж и размер фирмы, на управление доходами (качество финансовой отчетности) в перечисленных депозитных банках в Нигерии с 1999 по 2018 год. Использовался метод панельной регрессии для анализа взаимосвязи между качеством финансовой отчетности и структурой совета директоров. Также для определения пригодности методики оценки был проведен тест Хаусмана. Для определения управления доходами и отделения недискреционных составляющих начисления (NDAC) от общих начислений (TA) с целью получения компонентов дискреционного начисления (DAC) были проведены исследования модели Jones (1991) и модифицированной Dechow и Sloan (1995). Результат теста Хаусмана показал, что модель со случайными эффектами была наиболее подходящей оценкой в соответствии с нулевой гипотезой. Это было подтверждено лагранжевым множителем Бреуша-Пагана, в то время как тест Бреуша-Пагана / Кука-Вайсберга не подтвердил гетероскедастичности. Результаты панельной регрессии показали, что размер и состав совета директоров оказывает значительное положительное влияние на качество финансовой отчетности. Тем не менее, размер комитета по аудиту и левередж имеют положительную, но незначительную связь. Кроме того, размер фирмы оказывает значительное отрицательное влияние на зависимую переменную. Напротив, левередж положительно, но незначительно влияет на качество финансовой отчетности банков депозитных денег в Нигерии. Сделаны выводы о том, что размер совета директоров, состав совета директоров и размер фирмы являются важными переменными, влияющими на качество финансовой отчетности в Нигерии. Таким образом, исследование рекомендует банкам и регулирующим органам контролировать чрезмерное приобретение активов и численное увеличение числа членов аудиторского комитета для повышения качества финансовой отчетности коммерческих банков в Нигерии.

Ключевые слова: характеристики правления, качество финансовой отчетности, депозитные банки.

Introduction

The subject of financial reporting quality/earnings management and corporate governance mechanisms has received considerable attention in recent years from academics, professionals, market partakers, and regulators. Financial reporting's focus continues due to recent corporate failures that made stakeholders lose credibility and reliability in financial reports. Financial reporting quality provides transparent and genuine financial dealings design to communicate the accurate picture of corporate organisations to stakeholders to rate corporate organizations' trend performance. On the other hand, corporate governance is a concept where management supervision occurs in the decision-making process, both in public and private organizations. In the decision-making process, corporate governance must be implemented, as one of its requirements for an effective firm and sound organizational management (Nugroho and Eko, 2011)

Syakhroza (2004) claimed that the leadership (board of commissioners and board of directors) excellence contributes a significant role in executing corporate governance code. The board of commissioners representing the Nigeria Security and Exchange Commission in Nigeria acts as the company supervisor/regulatory authority, while the board of directors is responsible for its management. Both boards of commissioners and the board of directors have the full obligation and power to decide how to direct, control, and supervise the management of resources following the business's goals. Above notwithstanding, a conflict of interest often arises between them. Although the board of commissioners, as the dispenser of authority, has a stronger legal position than the board of directors, it also has less access to its situation. All the same, a skirmish of interest often occurs between the duo. However, as the regulatory authority, the board of commissioners has a sturdier legal position than the board of directors. Still, it has less access to the information on its state of affairs (Syakhroza 2004). One of the solutions that can be used to checkmate the directors' wrongdoings is to use financial reports to measure their performance.

Nonetheless, through precise techniques, the board of directors frequently manipulates the financial statement during footage of the firm's bookkeeping undertakings. Accounting, earnings management is not a damaging drill because it is anchored on the trust that the board of directors should present an excellent financial report with good records at all times. Little or no earnings management implies truthful information in financial reporting (Syakhroza 2004).

Globally, Al-Shaer et al. (2017) argued that false representation in published accounts causes loss of integrity, quality, and confidence in financial reporting. They cited the ones involving Enron and Worldcom in the US. In Nigeria, Eriabie and lzedonmi (2016) and Moses (2019) stressed that Cadbury Plc., Afribank Plc, and Intercontinental Bank Plc were involved extensively in fraud falsification of contents in their financial statements. Similarly, CBN (2019) observed that the collapse of Skye bank Plc. in 2018 and the absorption of Diamond Bank by Access Bank in 2019 resulted from poor financial reporting of the affected banks. To forestall the financial statement fraud crisis, organisations take a wide range of actions. These include setting up committees. Such committees' roles include watching closely the contents of financial reports from compilation to publication and beyond. A considerable debate in recent times shows the need for strong corporate governance and sound financial reporting quality (Moses, 2016; Kusnadi et al., 2016; Umobong and Ibanichuka, 2017; Al-Shaer et al., 2017). This has made countries worldwide draw up guidelines and codes of practices to strengthen corporate governance and enhance sound financial reporting quality (Cadbury 1992; Corporate Governance Code of Nigeria, 2003; 2007; 2014).

Good company governance by boards of directors and audit committees is recognised to influence financial reporting quality. Quality reporting, in turn, impacts the adverse effects of earnings management. As a result, there has remained a concentrated effort to enhance the board of directors' independence, minimize board size, and audit committee in Nigeria (Blue Ribbon Committee, 1999; Corporate Governance Code of Nigeria, 2014). Thus, questions continue to be raised about audit committees' efficiency and board characteristics, especially in the Nigerian banking industry. Furthermore, board characteristics; including structure, composition, independence, and experience, also determine the extent of financial reporting quality

Despite the Central Bank of Nigeria's continuous effort and other regulatory agents to prevent banks in Nigeria from rendering low earnings management reports, bank managers persist in indulging in excessive discretionary accruals approvals. CBN (2019) noted these lapses of the managers in the recent collapse of Skye Bank, which was later acquired by Polaris Bank in 2018, and the merger of Diamond Bank and Access Bank in 2019, respectively

Consequently, this study examines the effect of board characteristics on financial reporting quality. The study focused on some selected quoted Deposit Money Banks in Nigeria. The study specifically seeks to:

– examine the effect of board size (number of (executive and non-executive) directors) on financial reporting quality of selected quoted Deposit Money Banks in Nigeria;

– investigate the Impact of board composition (outside directors /internal directors) on financial reporting quality of s Deposit Money Banks in Nigeria;

– examine the effect of audit committee size on financial reporting quality of selected quoted Deposit Money Banks in Nigeria;

– investigate the correlation between the firm size and financial reporting quality of banks in Nigeria;

– examine the association between Leverage and financial reporting quality of banks in Nigeria.

Based on the objectives of the study, hypotheses were stated in the null form as follows:

Hypothesis 1: There is no statistically significant association between board size and financial reporting quality of selected quoted Deposit Money Banks in Nigeria.

Hypothesis 2: There is no significant correlation between board composition and financial reporting quality of set quoted Deposit Money Banks in Nigeria.

Hypothesis 3: There is no significant association between audit committee size and financial reporting quality of selected cited Deposit Money Banks in Nigeria.

Earlier studies on the relationship between board characteristics and financial reporting quality in both developed and emerging economies showed no nexus between the two variables; hence this paper intends to shed more light on the two variables using the Nigerian experience. The study focuses on banks with financial statements between 1999 and 2018 and has their names registered Nigerian Security Exchange. The years covered makes this study to have more data point than previous studies in Nigeria.

A vast majority of prior studies on the effects of board characteristics on financial reporting quality are more in developed countries. Similar studies noted in developing economies, include Okeahalam (2004) and Moses (2019), are few in Nigeria. This study's findings will help financial regulators, economists, investors, academics, politicians, and other stakeholders. The knowledge gap to be observed by this study will assist the interested parties to understand the import of good corporate governance in enhancing earnings management. The rest of this paper is organised as follows: the next section discusses conceptual review, followed by an appraisal of past studies, followed by the expected associations between corporate governance characteristics and earnings management. Next, the research method and data collecting process are described, followed by a discussion of the empirical results. The paper concludes with a recommendation.

Literature Review

Some theoretical offers deal with board characteristics and financial reporting quality grounded in agency theory (Jensen and Meckling, 1976). The approach, also known as the Principal-Agent problem, refers to the variety of ways in which agents, linked by contractual arrangements with a firm, and how it influences its behaviour. These may include organisational and capital structure, remuneration policies, accounting techniques, and attitudes toward risk-taking. Agency costs are the total cost of administering and enforcing these arrangements

Agency theory explains how best to organise relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1989). The theory contends that under circumstances of partial information and doubt, which characterise most firm's sceneries, two agency hitches arise: adverse selection and moral danger. The adverse assortment is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for the payment he received. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989).

Adverse selection and moral hazard problems mean that fixed-wage contracts are not always optimal for organizing linkage amid principal and agent (Jensen and Meckling, 1976). A fixed wage might create an inducement for the agent to evade since his reward will be the same, notwithstanding the quality of his work or his effort level (Eisenhardt, 1989). When agents have the incentive to elude, it is often more efficient to replace fixed wages with compensation based on residual claimant on the firm's profits. The provision of possession rights reduces the incentive for agents & adverse selection and moral hazard since it makes their compensation dependent on their performance (Jensen, 1983).

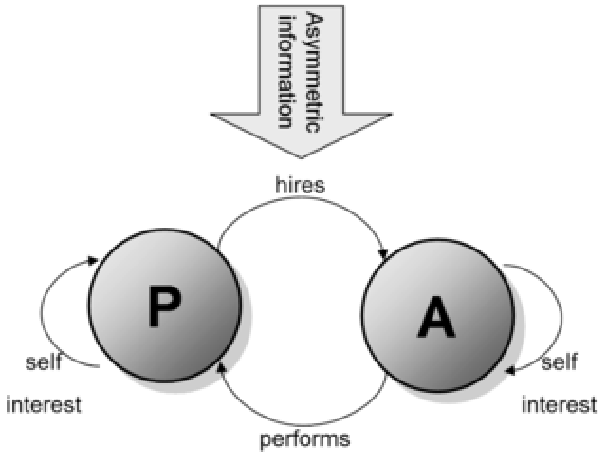

Figure 1 – Basic idea of Agency Theory
Source: Eisenhardt, 1989

Figure 1 the principal-agent problem treats the difficulties that arise under conditions of incomplete and asymmetric information. To align the agent's interests with those of the principal various techniques may be used l, such as piece rates/commissions, profit sharing, efficiency wages, the agent posting a bond, or fear of firing (Eisenhardt, 1989).

In its application to financial economics, agency theory looks at conflicts of interest between people with different stakeholders in the same assets. It is the most important means of the disputes between Shareholders and managers of companies and shareholders and bondholders.

One particular important agency issue is the conflict between the interests of shareholders and debt holders. Similarly, following a riskier but higher return tactical benefits of the shareholders to the detriment of the debt holder who earns a static profit (Gbadebo, 2017).

Another form of agency theory is the Multi-Task Principal-Agent Model propounded by Holmstrom et al. (2012), where the agent needs to perform separate and distinct actions to fulfill multiple objectives, an improvement on the traditional agency theory. They claimed that incentives provided to agents and employees are far more complicated than it is represented in the standard principal-agent model. The performance measures that determine rewards may total rutted aspects of performance into a single number and omit another element of performance that is essential if the firm is to achieve its goals (Holmstrom et al., 2012)

The multi-task Principal-Agent theory propounded utilises a linear principal-agent model that ensures that an increase in an agent's compensation in any one task will cause some re-allocation of attention away from other jobs.(Holmstrom et al., 2012)

The theory indicates that even when the agents have identical ex-ante characteristics, the principal should still design their jobs to measure distinctiveness that differs as widely as possible. The problem is how to inspire managers to eject the money rather than investing it at a lesser amount of the cost of capital or wasting it on organisational inefficiencies (Jensen, 1986).

This version premises on the supposition that managers have incentives to cause their firms to grow beyond the optimal size since this raise their power and reward. It, therefore, tries to identify firms' activities that are likely to reduce the agency costs associated with free cash flow.

To reduce the agency costs, debt is proposed to free cash flow by decreasing the cash flow accessible for spending at managers' freedom of choice. Therefore, the danger caused by failure to service the debt serves as a sufficient, inspiring force to make organisations more efficient (Jensen, 1986).

Audit Committee size and financial reporting quality

Moses (2019) investigated the relationship between audit committee size and the quality of commercial banks' financial reports in Nigeria. The study data was collected from the annual reports of 15 commercial banks, using content analyses. The study covered an era of 10 years from 2009 to 2018. The research findings showed that the audit committee composed more independent members has a positive effect on financial reporting quality.

Also, Onyabe et al. (2018) examined the effect of the audit committee meeting and expertise on the financial reporting quality of commercial banks in Nigeria. They got data from the NSE fact-books and fifteen commercial banks' financial statements over ten years from 2007-2016. The study adopted the modified Jones (1991) model to measure financial reporting quality. The study's findings showed that the audit committee meeting had a positive but statistically insignificant effect on financial reporting quality. They also found that audit committee expertise negatively affected the banks' financial reporting quality. Moreover, studies like that of Al-Shaer et al. (2017) and Eriabie et al. (2016), Eyenubo et al. (2017) showed a significant positive link between the audit committees size and financial reporting quality. Contrary to this are Kipkoech and Rono (2016), Moses et al. (2016), who observed a negative association between dependent and independent variables

Board composition

Moses (2019) investigated the relationship between the board of board composition and the quality of commercial banks' financial reports in Nigeria. The study data was collected from the annual reports of 15 commercial banks, using content analyses. The study covered a period of 10 years from 2009 to 2018. The findings showed that board composition has a significant positive relationship with the quality of financial reports. Adebiyi (2017) and Ibrahim et al. (2018) examined the link between board composition and financial reporting quality among Nigeria's deposit money banks. Their studies employed the panel regression method of analysis proxied discretionary accrual for financial reporting quality. These studies' findings revealed that board size and board independence positively affect financial reporting quality.

On the other hand, Ibrahim and Jehu (2018) found that the proportions of non-executive directors and the independent non-executive directors have a negative and significant relation with abnormal accruals. They found that a higher ratio of non-executive directors on the board improves the quality of financial reporting. However, the board size was not statistically significant.

Furthermore, some studies show evidence of a negative relation between the proportion of independent directors and earnings management (Ibrahim and Jehu, 2018; Klein, 2002; Osma and Noguer, 2007; Xie et al., 2003). On the contrary, Jamaludina et al. (2015), Dimitropoulos and Asteriou (2010) showed that outside directors (independent directors) have a positive nexus with annual accounting earnings. Some others indicate no correlation between earnings management and board independence (Bradbury et al., 2006; Park and Shin, 2004).

Board size and financial reporting quality

Moses (2019) examined the relationship between board size and the quality of commercial banks' financial reports in Nigeria. The study data was collected from the annual reports of 15 commercial banks, using the method of contents analyses. The study covered an epoch of 10 years from 2009 to 2018. The findings revealed that the board of directors' numerical size showed a positive relationship with the quality of financial reports. Other studies that explicitly examined the relationship between board size and FRQ are found to be in threefold: inverse relationship (Luo and Jeyaraj, 2019; Soliman and Ragab, 2013; Abed et al., 2012; Anderson et al., 2004; Xie et al., 2003), positive correlation (Talbi et al., 2015; Alzoubi, 2014; Chekili, 2012; Beasley, 1996), and no association (Abbott et al., 2004; Maria and Alves, 2011).

Firm size and financial reporting quality

Shehu and Ahmad (2013) observed that firm size has a significant effect on earnings quality. The study argued that large manufacturing firms in Nigeria tend to report more reliable and qualitative information in their financial report than small ones. However, Huang et al. (2012) firm size and financial reporting quality, using firm's assets to analyse earnings forecasts and financial statements as a proxy for financial reporting quality, a sample of 3,413 Compustat firms for a period 2005 to 2008. They employed regression analysis. They found that firm size is significant and negatively related to financial reporting quality. However, Olowokure et al. (2016), who investigated the correlation between firm size and financial reporting quality among Nigerian Banks from 2005 to 2014, found no statistically significant relationship between the dependent and independent variables.

Leverage and financial reporting quality

Most prisor studies have indicated that there is no significant relationship between Leverage and the level of disclosure (Wallace et al., 1994; Ahmed and Nicholls, 1994; Wallace and Naser, 1995; Camfferman and Cooke, 2002; Ali et al., 2004; Al Saeed, 2006). However, Naser et al. (2002) found a significant positive relationship between Leverage and disclosure level.

Methodology

The study sought to statistically examine the relationship between Deposit Money Banks' financial reporting quality and board characteristics in Nigeria. The population of the study consists of 24 banks, categorised (8 international authorization, 11 national approval, 3 regional authorisation, and 2 Non-interest banks). The study purposefully selected 16 deposit money banks with financial statements for the period under examination (1999-2018) and are currently on the Nigerian Stock Exchange Daily Official listing. The study is based on three corporate governance mechanisms (board size, board composition, and audit committee), and financial reporting quality proxied by discretionary accrual. Besides, the control variables employed are firm size and Leverage. Panel data technique was used, which from all indications, best suits random effect that deals with the methodology of modelling, non-stationary, and variables. The method enables estimating efficiency to show the long-run relationship between a dependent variable and independent variables.

Table 1 – Variables measurements and Sources

Variables	Measurements	Sources	Supporting Scholars
Financial Reporting Quality (FRQ)	Discretionary Accruals which implies Total Accrual less Nondiscretionary Accrual	Nigeria Stock Exchange (NSE) Factbooks and Annual Financial Statements (AFS) of selected banks	Dechow, Sloan, and Sweeney (*called modified Jones Model, 1995*)
Board size (BS)	Number of directors on board, both the executive and non-executive	NSE Factbooks and AFS of selected banks various issues	Hillman, 2010; Zahra and Pearce, 2018
Board Composition (BC)	The ratio of outside directors to internal directors	NSE Factbooks and AFS of selected banks various issues	Baysinger and Butler, 2015; Baysinger and Hoskinsson, 2016; Fama and Jensen,1983
Audit Committee Size (ACS)	Number of Audit Committee members	NSE Factbooks and AFS of selected banks various issues	Ayinde, 2002; Moses, 2019

Continuation of table 1

Variables	Measurements	Sources	Supporting Scholars
Firms Size (FS)	Log of Total Asset	NSE Factbooks and AFS of selected banks various issues	Oladele and Olagunju, 2013; Niresh and Thirunavukkarasu, 2014
Leverage (L)	The ratio of Debt to Equity	NSE Factbooks and AFS of selected banks various issues	Alkhatib, 2012; Omondi and Muturi, 2013; Njeri and Kagiri, 2013; Nwanna and Ivie, 2017
Note – compiled by the author			

The Jones Model

Jones (1991) proposes a model that relaxes the assumption that nondiscretionary accruals are constant. Her model attempts to control for the effect of changes in a firm's economic circumstances on nondiscretionary accruals. The Jones Model for nondiscretionary accruals in the event year is:

$$NDA_t = \alpha_1 (1/A_{t-1}) + \alpha_2 (\Delta REV_t) + \alpha_3 (PPEt) \quad (1)$$

where:

(ΔREV_t) = incomes in year t fewer revenues in year t-1 scaled by total assets at t-1;

PPE_t = gross property plant and equipment in year t scaled by total assets at t-1;

A_{t-1} = total asset at t-1; and

$\alpha_1, \alpha_2, \alpha_3$ = firm-specific parameters.

Estimates of the firm-specific parameters, α_1, α_2, and α_3 using the following model in the estimation period are generated as:

$$TA_t = \alpha_1 (1/A_{t-1}) + \alpha_2(\Delta REV_t) + \alpha_3 (PPEt) + \alpha_t \quad (2)$$

The Modified Jones Model

To eliminate the Jones Model's conjectured tendency to measure discretionary accruals, the modification, is designed with an error when discretion is over revenues. In the modified model, nondiscretionary accruals during the event period (i.e.), during periods in which earnings management estimated is hypothesised) as:

$$NDA_t = \alpha_1 (1/A_{t-1}) + \\ + \alpha_2 (\Delta REV_{t\_} \Delta REC_t + \alpha_3 (PPE_t), \quad (3)$$

where:

ΔREC_t = net receivables in year t less net receivables in year t-l scaled by total assets at t-1. The estimates of α_1, α_2, α_3 and nondiscretionary accruals during the estimation period (in which no systematic earnings, management is hypothesized) are obtained from the original Jones Model. The only adjustment relative to the original Jones Model is that the change in revenues for the change in receivables is adjusted in the event period (Dechow et al., 1995).

The novel Jones Model implicitly undertakes that freedom of choice over revenue in either the estimation or the event period is not exercised. The modified version of the Jones Model implicitly assumes that all credit sales changes m the event period result from earning management. On the reasoning that it is easier to manage earnings by exercising discretion over the recognition of revenue on credit sales than to manage earning by exercising discretion over revenue recognition on cash sales. If this modification is successful, then the estimated earnings management should no longer be biased toward zero in samples where earnings management has taken place by managing revenues (Dechow et al., 1995).

Model Specification

The analytical model considered in this study is adapted from Moses (2019)

$$FRQUAL = \beta_0 + \beta_1 ACS + \beta_2 BS + \\ + \beta_3 BODCOM + \beta_4 BNKSIZE + \\ + \beta_5 BNKAGE + \mu \quad (4)$$

where:

FRQUAL denotes financial reporting quality, AUDCOM connotes Audit composition, BODSIZE implies Board size, BODCOM indicates Board composition, and BNKSIZE means bank size.

Leverage is included as one of the control variables as it shows the extent to which firms borrow (debt financing) to increase profitability. The Leverage as a financial decision is a critical managerial decision as it influences the firm's market value, shareholder's risk, and returns (Omondi & Muturi, 2013). Besides, the three determinants of Leverage of a firm are firm size, tangibility, and growth (Nwanna et al., 2017). To replace firms' size, which is one of the Leverage's components in the adopted model to enhance the robustness of the result of findings.

This study's model took the elements of board size, board composition, and audit committee size as predictor variables. Simultaneously, financial reporting quality or earnings management, measured by discretionary accruals, is used as the criterion variable. The study specified model attempts to ascertain the influence of board characteristics on the quality of financial reporting of quoted banks in Nigeria as follows:

$$FRQ_{it} = f\,(BS, BC, ACS, FS, L) \quad (5)$$

$$FRQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BC_{it} + \\ +\beta_3 ACS_{it} + \beta_4 FS_{it} + \beta_5 L_{it} + \varepsilon_{it} \quad (6)$$

where:

FRQ_{it} = financial reporting quality (measured by discretionary accruals)

β_0 = Intercept

$\beta_1 - \beta_5$ = Coefficient of predictor variables

BS_{it} = Board Size of the firm I in year t

BC_{it} = Board Composition of firm i in year t

ACS_{it} = Audit Committee Size of firm i in year t

FS_{it} = Firm size of firm i in year t

L_{it} = Leverage of firm i in year t

ε_{it} = Disturbance term of firm i in year t

Based on extant literature review, the *apriori* expectations for the study variables are; β_1, β_2, β_3, $\beta_5 > 0$: $\beta_4 < 0$

Results and Discussion

Diagnostic test

Table 2 below shows the diagnostic test, which assists in determining the estimation technique that is most appropriate using the Hausman test and Breusch-Pagan LM Test. The Hausman test is the test to choose between the Fixed and Random Effects models, while to test the random-effects model's appropriateness the Breusch-Pagan LM test was used. Other diagnostics include the Breusch-Pagan/ Cook-Weisberg heteroskedasticity test and the Wooldridge autocorrelation test. The classical linear regression model assumptions have it that the disturbances are homoskedacity that has no serial correlation.. To verify the correctness of the assumptions used the Breusch-Pagan/Cook-Weisberg, heteroskedasticity, and the Wooldridge autocorrelation tests were adopted.

Table 2 contained summary of diagnostic tests.. The Table shows that the Hausman test was conducted to determine the most appropriate method between the Fixed Effects and Random Effects model. As shown in Table 2, the results disclosed a ρ-value of 0.104, more than the 5 percent (0.05) level of significance chosen for the study. The results reveal that the Random Effect is the most appropriate estimator in line with the Hausman test's null hypothesis, which states that there is an unsystematic difference in both models' model coefficients. Thus, the study does accept the null hypothesis.

Table 2 – Diagnostic test

Hausman Test: $Chi^2 = 5.70$, Prob> $chi^2 = 0.104$
Breusch-Pagan LM Test: $Chi^2_{(1)} = 1.55$, Prob> $chi^2 = 0.030$
Breusch-Pagan/ Cook-Weisberg Test: $Chi^2_{(1)} = 1.23$, Prob> $chi^2 = 0.24$
Wooldridge Test: F = 1.85, Prob >F = 0.13
Note – compiled by the author

The Hausman specific test indicator favours, random effect model, because all the selected quoted deposit money banks are different from one another. Hausman's selection of random effect model clarifies that the random effect is covering the heterogeneity among the quoted banks in the banking sector in Nigeria. Similarly, the confirmation test results on the Hausman results, using Breusch-Pagan Lagrangian multiplier with ρ-value of 0.03, were less than the acceptable level of significance of 5% supported. The outcome of the Hausman test concludes that Random Effect is the most appropriate estimator.

Also, the Breusch-Pagan/Cook-Weisberg test was conducted to establish Heteroskedasticity, that is, testing for the consistency of the variations in the residuals of the model period "t." The result has a ρ-values of 0.24, which was more significant than the 5 percent chosen level of significance. It implies that the differences in error terms of the model are trending. The result means that the model is homoscedastic. It also suggests that there is no heteroskedasticity problem.

Similarly, Wooldridge Test was computed to know if the model's coefficients and its residuals correlated over time. The test outcome revealed a ρ-value of 0.13, which is greater than the chosen level of significance of 5%. It showed that there is no first-order autocorrelation. It implies that there is no correlation problem among coefficients of the models and their residuals.

Table 3 below presents the regression results (ordinary least square (OLS) estimation, fixed effects (FE) estimation, and random effect (RE) estimation to determine the effect of board characteristics on financial reporting quality.

From the three estimations, the random effect result shows an overall R-square of 0.71. It implies that just 71% variation in the DAC represents explanatory variables' combined influence (BS, BC, ACS, FS, LG). Simultaneously, the remaining 29 percent caused by other determining variables outside the scope of this study. It was considering the result of the Wald $chi^2_{(5)} = 31.98$, with a p-value of 0.00 (0 percent), which show that three out of the explanatory variables (BS, BC, and FS) significantly influence the financial reporting quality (Discretionary Accruals (DAC). On the other hand, the other two explanatory variables (ACS and LEV) do not impact the dependent variable.

Table 3 – Regression result

Method	POOLED OLS			Fixed effects			Random effects		
Variables	Coeff	t-Stat	Prob.	Coeff	t-stat	Prob	Coeff	t-stat	Prob
BS	3.69	0.96	0.04	-0.05	-1.56	0.08	0.14	2.59	0.05
BC	5.24	3.47	0.90	0.29	2.92	0.01	0.42	3.49	0.04
ACS	0.18	3.55	0.03	0.06	6.65	0.02	0.05	5.84	0.41
FS	-0.23	-6.27	0.04	-0.04	-4.40	0.03	-0.06	-3.83	0.01
LG	0.76	1.31	0.12	0.22	1.01	0.24	0.02	1.32	0.63
Constant	40.44	3.16	0.00	5.02	3.16	0.87	0.009	-0.08	0.93
	Adj. R-squared = 0.76			Adj. R-squared = 0.68			Adj. R-squared = 0.71		
	F= 20.6			F= 25.88			Wald $chi^2_{(5)} = 31.98$		
	Prob > F = 0.00*			Prob > F = 0.02*			Prob > chi^2 = 0.00*		
Note – compiled by the author									

Board size (BS) has a significant positive relationship with financial reporting quality proxied by DAC at a 5% level of significance with a coefficient of 0.14, which implies an additional increase in board size will lead to a 14% rise DAC. Similarly, Board composition (BC) has a significant positive association with DAC at a 4% level of significance with a coefficient of 0.42, indicating that an increase in the number of non-executive directors of the board will lead to a 42% increase in DAC. On the other hand, firm size has a significant but negative influence on DAC with a coefficient of 0.06, which shows that an increase in firm size (total assets) will lead to the decline of financial reporting quality by 6%. However, Audit committee size (ACS) and Leverage (LEV) has a positive but insignificant correlation with DAC, which implies that an increase or decrease in ACS and LEV will not impact the dependent variable (Financial reporting quality).

This study observed a positive relationship between board size and financial reporting quality. The study specifies that an increase in board size will improve financial reporting quality; hence the null hypothesis is rejected; The findings was supported by Adebiyi (2017). He discovered a positive relationship between board size and financial reporting quality. On the other hand, Ibrahim and Jehu (2018) observed that board size has a non-statistical significance association with financial reporting quality.

Similarly, this research discovered a positive association between board composition and discretionary accruals. The discovery agrees with the apriori expectation. Therefore the null hypothesis is not accepted. This finding also conforms to Adebiyi (2017), who found a positive relationship between the dependent and independent variables.

However, this research revealed a non-statistical relationship between audit committee size and financial reporting quality. This result was in line with that of Moses (2016). He found no significant linkage between audit reporting quality and audit committee size, contrary to the expectation of a significant positive association between the dependent and independent variables.

Meanwhile, other previous studies, such as Kipkoech and Rono (2016), listed firms in Kenya and Eyenubo et al. (2017), who studied Nigerian quoted firms and observed a positive correlation between financial reporting quality and audit committee size.

Firm size showed a significant inverse association with discretionary accruals. This is supported by the study of Huang et al. (2012) studied CEO age, and financial reporting quality found that firm size is significant and negatively related to financial reporting quality, which conforms with apriori expectation.

On the contrary, Shehu and Ahmad (2013) observed a significant positive relationship between firm size and earnings quality. Olowokure et al. (2016) found no statistically meaningful relationship between a dependent variable and independent variables Finally,. Leverage has a positive but insignificant relation to financial reporting quality. This result is in line with the studies of (Wallace et al., 1994; Ahmed and Nicholls, 1994; Wallace & Naser, 1995; Camfferman & Cooke, 2002; Ali et al., 2004; Al Saeed, 2006). However, Naser et al. (2002) found a significant relationship between Leverage and disclosure level.

Conclusion

Financial reporting quality has remained the focus of discussion for both financial and non-financial firms in both developed and emerging economies. It has led to the collapse of both small and big companies worldwide. The potentially unresolved problem is the principal-agent conflict due to moral hazard and adverse selection. It has been established that the agent has more information than the principal, hence the agent may use it to cheat on the principal through the unethical use of discretionary accruals. The study used data collected from different banks' financial reports, and the Nigerian Security Exchange factbook various issues from 1990 to 2018. The mixed econometrics test run includes the Hausman Test, Breusch-Pagan LM Test, Breusch-Pagan/Cook-Weisberg Test, and Wooldridge Test and regression analysis. The result showed a positive, statistically significant influence between board size and board composition on financial reporting quality.

On the other hand, firm size revealed a negative statistically significant effect on financial reporting quality. In contrast, audit committee size and Leverage do not influence banks' financial reporting quality in Nigeria. The study examined how board structure influences Nigeria's financial reporting quality to profer solutions to unethical discretionary accruals approvals by the managers. The study recommends that the directors of banks and regulatory authorities check the excessive acquisition of assets and numerical increase in audit committee members to enhance commercial banks' financial reporting quality in Nigeria.

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