

BOARD OF DIRECTORS AND QUALITY OF FINANCIAL REPORTS OF QUOTED BANKS: EVIDENCE FROM NIGERIA

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ABSTRACT

This study was carried out to examine six characteristics representing the board of directors (size, independence, meetings, tenure, gender and expertise) of board of directors and their impact on quality of financial reports. A correlational research design was used to examine influence of board quality of financial reports using 12 listed deposit money banks. Finding suggests board shows enormous influence on quality of financial reports. Specific findings show that financial reporting quality will be higher if the size of the board of directors is increased. However, board tenure and expertise cause leads to poor financial reporting quality. In addition, we do not find evidence that board independence, meetings and gender improve quality of financial report. Among other recommendations, the study suggest that the number of board members should be increased since evidence has shown that it enhances financial reporting quality, while the tenure of board members should be reduced since it decreases financial reporting quality.

Keywords: board of, banks, directors, financial, reporting, quality

1.0 INTRODUCTION

There have been series of studies conducted to in this area. For instance, Martinez-Ferrero (2014), Shehu (2013) and Costello and Moerman (2011) and they are largely conducted in both developed and developing economies. This suggests that scholars have been trying to establish relationship between board characteristics and **financial reporting quality (FRQ)**. However, despite these handful researches documented, evidence has shown that firms still failed and consequently liquidated due to poor monitoring exercise.

For instance, the cases of Enron (2002) and Cadbury (1992) quickly came to mind where fingers were pointed to poor FRQ. For example, before Enron Corporation filed for bankruptcy on 2nd December 2001; its share price stood at \$90.75; however, it fell to \$0.26 when the scandal broke out. The story of Enron Corporation depicts a

company that reached dramatic heights only to face a dizzying fall. The fated company's collapse affected thousands of employees and shook Wall Street to its core. Also difficult to fathom is how its leadership managed to fool regulators for so long with fake holdings and off-the-books accounting.

The Cadbury Nigeria had been caught in a scandal on October 2006. This also was called the Nigeria version of Enron Corporation scandal case. Firstly, the scandal caused Cadbury Nigeria losing a lot of money, it had recorded roughly a loss of \$15 million on the year and will continue lose money again in the next year. Cadbury Nigeria shares quickly dropped 5% of their value and writing the shares down over 26% since the scandal. The company shares have been hit hard on the Nigerian Stock Exchange. The corruption of Cadbury Nigeria led to loss of public confidence to do business in the country and has a bad reputation. The CEO tried to shed its corruption image to encourage greater shareholder to activism in the country and attract foreign investment. The company's public affairs managers also said that the overstatement of financial position was traced to the CEO and the financial executive director keen to achieve its set ambitious growth target.

Similarly, in Nigeria, financial institutions including banks have suffered the similar fate. The case happened in 2013 when Intercontinental Bank merged with Access Bank, thereby incorporating intercontinental bank and all its assets. Afribank was sold in 2011 to Mainstreet Bank, which was taken over by Skye Bank in 2014. In 2016, Skye Bank was taken over by Polaris Bank. Access bank and Diamond bank agreed to operate under the new brand from 1 April, 2019 and signal severe gray issues concerning their FRQ, even when all these banks have one time or the other been issued a financial clean bill of health.

Therefore, this study reexamines the effect of board of directors through board characteristics (board size, board independence, board meetings, board tenure, board gender, board expertise) on FRQ (loan loss provision and corporation check weaknesses). Secondly, most of previous studies were either inconclusive arising from model specification, variable definition or scope determination leading to inconsistency findings and this create huge gap that this study tends to fill. Thirdly, most previous studies relied heavily on a single model leaving their findings to be subjective and lack generalization. This present study expands the models by using two different models to examine the effects of board of directors through board characteristics (board size, board independence, board meetings, board tenure, board gender and board expertise) on FRQ and by so doing, it bridges the lapses identified in the previous studies.

The significance can be seen in view of the suggestions made by the study. Therefore, the contributions of this study are in three folds:

The study contributes practically as it brings implications of board on FRQ. For example, financial reporting quality is higher when the size of the board of directors is increased. However, board tenure and expertise cause poor financial reporting quality. We failed to find evidence that board independence, meetings and gender improve quality of financial report. It fills void that may arises in the implementation and execution of board of directors' roles and responsibilities in enhancing FRQ. Next, the study empirically contributes to the existing literature especially in the area of using multiple dependent variables to a single corporate governance mechanism (board characteristics). In this way, it provides an over view of different implication of board characteristics on FRQ. Finally, the study theoretically contributes to knowledge as it justifies the need and usefulness of multiple theories in explaining the influence board characteristics have on FRQ.

2.0 LITERATURE REVIEW

Chalaki et al. (2012) investigated board size and financial reporting quality and found board size to have no relationship with financial reporting quality. Onuarah and Imeme (2016) found board size to have positive impact on the financial reporting quality. Adebisi (2017) explored the extent at which board size influenced financial reporting quality of banks in Nigeria. The study used a sample of 15 deposit money banks listed on the Nigerian Stock Exchange between 2005 and 2016. It was found that discretionary accrual as a proxy for financial reporting quality was positively related to board size.

Rotich (2017) examined the relationship between board size and FRQ of 46 listed firms in Kenya. It was based on agency and institutional theory. It used cross sectional and explanatory research designs. Census technique **was used to collect data and both** descriptive and inferential statistics was employed to analyse the data. The study found board size to have positive and significant effect on FRQ. Mithkal and Norsiah (2018) assessed in Jordan using correlational research design of 172 companies quoted in Jordan **and concluded** inadequate disclosure of the items in the annual financial reports.

Mahboub (2017) investigated the potential determinants that may influence the quality of financial reporting of 88 annual reports of a sample of 22 Lebanese banks for the period 2012-2015. Using multivariate OLS model, the results indicated that board size had significant and positive relationship with financial reporting quality.

Ibrahim and Jehu (2018) examined the relationship between board size and financial reporting quality. Results suggested that board size did not show any significance.

Ibrahim and Abubakar (2019) examined the impact of board attributes on financial reporting quality of listed deposit money banks in Nigeria. The study utilized data collected from annual reports and accounts of the sampled deposit money banks for the periods 2007 to 2018. The study revealed that board size had positive insignificant effect on quality of financial reports. Abubakar (2019) also found board size had a positive and insignificant relationship with financial reporting quality. Furthermore, Luo and Jeyaraj (2019) investigated to find out the associations between characteristics of the boards and the level of earnings management among UK listed companies during 2012 to 2016. Result revealed that board size was negatively related with level of earnings management. Moses (2019) investigated the relationship between board of directors' characteristics and quality of financial reports of commercial banks in Nigeria over 15 commercial banks using 10 years (2009-2018). Results showed that numerical size of the board of directors showed a positive relationship with the quality of financial reports. The paper proposes that:

H_{01} : Board size does not have significant influence on FRQ

Beasley (1996) empirically tested the prediction that the inclusion of larger proportions of outside members on the board of directors significantly reduced the likelihood of financial statement fraud. Results from logit regression analysis of 75 fraud and 75 no-fraud firms indicated that no-fraud firms had boards with significantly higher percentages of outside members than fraud firms. Also, Klein (2002) examined whether board characteristics are related to earnings management by the firm. A negative relation was found between board independence and abnormal accruals. McConvill & Bagaric (2004) argued that the shift towards more 'independent' directors was a fundamentally bad move, which undermined the rights and powers of minority shareholders and entrenches a second-rate corporate governance model - the separation of ownership and control, contained in company law. Wu et al. (2007) also found board independence not significantly related to the quality of financial reporting.

Chalaki et al. (2012) investigated the effect of corporate governance attributes on financial reporting quality in firms listed in Tehran Stock Exchange (TSE) during the period of 2003 to 2011. Board independence showed that there was no relationship with financial reporting quality. Also, Bhagat and Bolton (2013) studied the impact of the Sarbanes-Oxley Act on the relationship between corporate governance and company performance. They considered 5 measures of corporate governance during the period 1998–2007 and found a significant negative relationship between board

independence and performance during the pre-2002 period, but a positive and significant relationship during the post-2002 period.

Abdulmalik (2015) examined the relationship between board monitoring mechanism, continuous training and financial reporting quality in Malaysian context. The paper employed a sample of top 100 Malaysia firms identified by the Malaysia Shareholder Watchdog Group between the periods 2010-2011. Feasible GLS regression estimation method was used to test the relationship. Result revealed that the proportion of independent directors was negative, but not significant. Onuorah and Imeme (2016) found independent directors on the board of firm to be negatively affected financial reporting quality. Adebisi (2017) found board independence to be positively related to financial reporting quality. Mahboub (2017) found board independence not statistically significant in explaining the quality of financial reporting of banking sector in Lebanon. Also, Koevoets (2017) found that board independence had a negative relation with earnings quality, which represents financial reporting quality.

Ibrahim and Jehu (2018) found board independence represented by the proportions of non-executive directors as well as that of independent non-executive directors to have negative and significant relation with abnormal accruals, which in turn improves the quality of financial reporting. Aifuwa and Embele (2019) evaluated board characteristics and FRQ of listed manufacturing firms. The Generalized Linear Model Regression was used and was found to be insignificantly related to financial reporting quality. Ibrahim and Abubakar (2019) found board independence to have positive insignificant effect on quality of financial reports. Luo and Jeyaraj (2019) failed to find any association between board meetings and level of earnings management. Suleiman et al. (2020) found board independence to be insignificantly related to financial reporting quality. The paper, therefore, proposes that:

H₀₂: Board independence does not have significant impact on FRQ

Wu et al. (2007) found board meeting frequency not significantly related to the quality of financial reporting. Keehwan and Joon (2014) examined director tenure and FRQ: Evidence from Korea. They measured FRQ using modified Jones model. The study found inverse association. Koevoets (2017) examined the relation between board characteristics and found positive link. Adebisi (2017) also found that financial reporting quality was negatively related to board meeting.

Abubakar (2019) examined the impact of board characteristics on financial reporting quality of listed food product companies in Nigeria. The study covered a period of 5 years (2012–2016). Results revealed a positive significant relationship between board meetings and financial reporting quality. Luo and Jeyaraj (2019) found that a board

meeting was significantly associated with the level of earnings management. The paper suggests:

H₀₃: Board meeting does not have significant influence on FRQ

Wiersema and Bantel (1992) examined the relationship between the demography of top management teams and corporate strategic change, measured as absolute change in diversification level, within a sample of Fortune 500 companies. They found that the firms most likely to undergo changes in corporate strategy characterized shorter organizational tenure and higher team tenure. Kim and Yang (2014) investigated the relationship between director tenure and financial reporting quality. Results showed that the absolute value of discretionary accruals decreased when the tenure of directors increased.

Rotich (2017) also examined the relationship between frequency of board meetings and FRQ. The paper discovered inverse association. Adebisi (2017) explored extent at which board composition influences the FRQ and concluded inverse relations. Koevoets (2017) examined relation between board characteristics (board independence and directors' tenure) and earnings quality with a sample between 2007 and 2015 from USA based firms. The results showed a positive relation between directors' tenure and earnings quality. The paper proposes that:

H₀₄: Board tenure does not have significant impact on FRQ

Oba (2014) investigated and concluded gender diversity is a significant predictor of FR credibility in Nigeria. Kreder (2016) investigated the association between female board participation and the use of discretionary revenue recognition in a firm. Using a sample of S&P 1500 firms from 2007-2014, the study found that female board was negatively associated with discretionary revenue recognition. Firoozi et al. (2016) used abnormal accruals and restatements. However, the study did not find any relation. Branciani and Poli (2017) verified whether and how gender diversity in boards of directors affected Italian private unlisted companies' propensity to engage in earnings minimization, which is equivalent of financial reporting quality. The study showed that gender diversity in boards of directors does not contrast companies' propensity to practice earnings minimization.

Aifuwa and Embele (2019) evaluated manufacturing corporations in Nigeria using Generalized Linear Model Regression revealed that board gender was insignificant. *Edwin and Timothy (2019) examined the correlation between board gender diversity and FRQ. While FRQ was measured using the IASB qualitative characteristics model, we used the ratio of women board members to total board members, Blue diversity*

and Shannon diversity indexes as surrogates for gender diversity. Based on data gleaned, findings revealed a positive link. **Also,**

Saona et al. (2019) addressed the question on how board gender diversity influenced managerial opportunistic behaviour using companies from Denmark, Finland, France, Germany, Italy, Norway, Portugal, Spain, Sweden, and United Kingdom for the period 2006–2016. Results confirmed the benefits of having a balanced board in terms of gender diversity. Luo and Jeyaraj (2019) found board gender to be significantly associated with the level of earnings management. Suleiman et al. (2020) found board gender to be insignificantly related to financial reporting quality. *The paper proposes:*

H₀₅: Board gender does not have significant influence on FRQ

Alzoubi (2014) concluded that board financial expertise has a negative relation with earnings management. Dabor and Dabor (2015) demonstrated no relationship. Aifuwa and Embele (2019) investigated the impact of board characteristics on financial reporting quality of listed manufacturing firms. Findings revealed that board expertise was statistically significant and positively related to financial reporting quality. Suleiman et al. (2020) investigated the effect of board attributes on financial reporting quality of 13 listed consumer goods firms on the Nigerian Stock Exchange for the period 2013 to 2018. Findings showed that board expertise was statistically significant and positively related to financial reporting quality. *The paper proposes:*

H₀₆: Board expertise does not have significant effect on FRQ

The paper relied heavily on agency theory, stakeholder’s theory and stewardship theory. The study utilized all the three theories to explain the linkage. Agency theory is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents. In this paper, shareholders are referred to as the principals and management as the agents.

There are several ways to consider stakeholders in an organization. The “shareholder theory,” posited in the early 20th century by economist Friedman (1962), says that a company is beholden only to shareholders - that is, the company must make a profit for its shareholders. Stakeholder theory was first described by Freeman (1984) and shareholders are merely one of many stakeholders in a company. The stakeholder ecosystem, this theory says, involves anyone invested and involved in, or affected by, the company: employees, environmentalists near the company’s plants, vendors, governmental agencies, and more. Freeman’s theory suggests that a company’s real success lies in satisfying all its stakeholders, not just those who might profit from its stock.

Stewardship theory of corporate governance is a normative alternative to agency theory. This paper argues that the stewardship behaviour of managers results in exemplary corporate governance practices when the espoused values of the firm are aligned with the enacted values.

3.0 METHODOLOGY

Some of the banks are eliminated because of some irregularities or delisting from the stock market. For examples, some banks are below listing standard (BLS), others are missed regulatory standards (MRS), missed regulatory filing (MRF), delisting Watch List (DWL), Delisting in progress (DIP) and restricting (RST). In this way, Diamond bank could not be selected because in 2018, the bank merged with Access bank. Similarly, Skye bank metamorphosed to Polaris bank. Therefore, it is expected that the earlier bank (Skye bank) has ceased to exist. This now leave us with a population of twelve (12) banks which form the sample. The dependent variable in this study is FRQ. FRQ is measured by loan loss provision and internal control weakness (Athanasakou & Olsson, 2015; Onyabe et al., 2018).

Chiang et al. (2006) explored the correlation between corporate social responsibility (CSR) and the quality of financial reports. The empirical results indicated that by practicing CSR, companies can effectively provide quality financial reports. Furthermore, Larcker et al. (2007) used abnormal accruals to proxy financial reporting quality in study of a sample of 2,106 firms and 39 structural measures of corporate governance. Beest et al. (2009) constructed a compound measurement tool to assess the quality of financial reporting using 231 annual reports from companies listed at US, UK, and Dutch stock markets in 2005 and 2007.

Athanasakou and Olsson (2015) investigated the association between board of directors' share ownership and financial reporting quality. They measured financial reporting quality by using discretionary accruals, earnings persistence, accounting restatements, and internal control weaknesses. Onyabe et al. (2018) also examined the effect of audit committee tenure on financial reporting quality of listed deposit money banks in Nigeria. Financial reporting quality was measured using the modified Jones (1991) model and loan loss provision model.

$$LLP_{i,t} = \alpha + \beta_1bodsze_{i,t} + \beta_2bodind_{i,t} + \beta_3bodmet_{i,t} + \beta_4bodten_{i,t} + \beta_5bodgen_{i,t} + \beta_6bodexp + \beta_7fsze_{i,t} + e_{i,t}$$

Whereas:

LLP = Loan Loss Provision

$$llp_{i,t} = \gamma_0(1/TA)_{i,t} + \gamma_1LCO_{i,t} + \gamma_2\Delta LOAN_{i,t} + \gamma_3\Delta NPL_{i,t} + \mu_{i,t} \text{-----} 2$$

llp_{it} = Total loan loss provision of bank *i* in year *t*, scaled by total assets

Intercept/slope = γ_0 , and coefficients = γ_1 , γ_2 , and γ_3 Residual (discretionary loan loss provision) = μ_{it} . Therefore, this model is stated as follows:

$$icw_{i,t} = \alpha + \beta_1bodsze_{i,t} + \beta_2bodind_{i,t} + \beta_3bodmet_{i,t} + \beta_4bodten_{i,t} + \beta_5bodgen_{i,t} + \beta_6bodexp + \beta_7fsze_{i,t} + e_{i,t} \text{-----} 3$$

bodind = Board independence, number of independent board members present at the board (Abdulmalik, 2015; Adebisi, 2017; Beasley, 1996; Bhagat & Bolton, 2013; Chalaki et al. (2012); Ibrahim & Abubakar, 2019; Klein, 2002; Koevoets, 2017; Luo & Jeyaraj, 2019; Mahboub, 2017; McConvill & Bagaric, 2004; Onuorah & Imeme, 2016; Wu et al., 2007).

Bodsze = Board size, measured by the total number of member that makes up the board (Abubakar, 2019; Adebisi, 2017; Ibrahim & Abubakar, 2019; Ibrahim & Jehu, 2018; Larcker et al., 2007; Luo & Jeyaraj, 2019; Mahboub, 2017; Onuorah & Imeme, 2016).

Bodmet = Board meetings, number of the frequency of meetings held by the board (Abubakar, 2019; Adebisi, 2017; Luo & Jeyaraj, 2019; Wu et al., 2007).

Bodexp = Board expertise, Number of board member expertise that are knowledgeable in finance (Aifuwa & Embele, 2019; Alzoubi, 2014; Dabor & Dabor, 2015; Suleiman et al., 2020).

Bodten = Board tenure, period of time that member spent at the Board (Kim & Yang, 2014; Koevoets, 2017; Wiersema & Bantel, 1992).

bodgen = Board gender diversity, Proportion of female member at the board (Branciarri & Poli, 2017; Kreder, 2016; Luo & Jeyaraj, 2019; Saona et al., 2019).

fsze = Firm size, log of total asset (Aliyu et al., 2021; Yahaya & Awen, 2020).

Aliyu et al. (2021) used firm size as control variable in board features and financial performance of banks. Also, Yahaya and Awen (2020) used firm size as control variable in bank-specific attributes and operational efficiency: Evidence from efficient-structure hypothesis. The current study covers influence of board of directors on financial reporting quality over 10 years (2009–2018) and is limited to banks. FRQ was discussed given context (loan loss provision and internal control weaknesses). Also, board was discussed as size, independence, meetings, tenure, gender and expertise. This period is chosen as the most current period. Secondly, the study domain is situated in the financial institution and to be precise, deposit money banks.

Finally, the choice of the sector is based on the significant role it plays in the economic development of the nation.

4.0 RESULTS AND DISCUSSIONS

Table 1

Descriptive Statistics

Variable	Mean	Std	Max	Min	Skewness	Kurtosis	Obs
llp	11.759	3.307	19.358	1.945	0.099	2.454	120
icw	11.866	6.380	35	1	0.800	3.684	120
bodsize	15.183	3.156	25	9	0.253	2.976	120
bodind	2.366	0.697	4	1	-0.039	2.704	120
bodmet	4.883	1.182	8	3	0.869	2.419	120
bodten	10.383	1.620	15	8	-0.158	2.074	120
bodgen	3.016	1.166	5	1	-0.096	2.282	120
bodexp	2.816	0.943	6	1	0.432	3.463	120
fsze	16.462	3.363	22.101	11.191	0.260	1.523	120

Source: Stata 14 Outputs, 2020.

Table 1 shows that *llp* and *icw* which are dependent variable in this study revealed mean values of **11.760** and **11.867** with corresponding standard deviation of **3.307** and **6.380** respectively. This suggests that all the deposit money banks in Nigeria in one way or the other make provision for loan loss as well as experience certain degree of internal control weakness. The maximum and minimum value of *llp* and *icw* are **19.359**, and **1.946** and 35 and 1 respectively which further collaborate the earlier discussion while, *llp* shows skewness and kurtosis value of **0.099** and **2.454** and *icw* reveals skewness and kurtosis values of **0.800** and **3.684** suggesting that the data utilized in the study are normal and that multicollinearity was not a threat.

Similarly, *bodsize* reveals mean value of **15.183** and std dev of **3.157** max of 25, min of 9 in addition to skewness and kurtosis of **0.254** and **2.976** respectively. The mean value of the *bodsize* suggests that the variable is the second highest contribution to the distribution while the standard deviation reveals the relative spread of the distribution. Minimum and maximum further substantiate different board size among the banks.

On the other hand, *bodind* shows mean and standard deviation values of **2.367 and 0.697** max and min of 4 and 1 while, skewness and kurtosis values are **-0.039 and 2.704** accordingly. This distribution shows that all the deposit money banks in Nigeria has independent board member in the board committee. Similarly, *bodmet* produced average of 4.883, std dev of **1.182**. In similar vein, the maximum and minimum values of *bodmet* are 8 and 3 while, the skewness and kurtosis values are **-0.039 and 2.704** respectively. The mean value suggests that on average, all the deposit money banks in Nigeria held there meeting 5 times in a year, although this is contrary to the conventional 4 times that is generally known.

bodten on the other hand received average **10.383 and std dev 1.620**. In addition, *bodten* reveals maximum value of 15 and minimum value of 8 with skewness and kurtosis values of **-0.159 and 2.074** respectively. This shows that board tenure for an average of 10 years across deposit money banks in Nigeria. Equally, *bodgen* recorded mean and standard deviation of **3.017 and 1.167** respectively with maximum value of 5 and minimum value of 1 couple with skewness and kurtosis value of **-0.096 and 2.282** respectively. The mean value distributions suggest that at least, the entire deposit money bank have female gender in their board composition. *bodexp* however, revealed mean value of **2.817 and std dev value of 0.944**, max and min of 6 and 1 with skewness and kurtosis of **0.432 and 3.463** respectively. This distribution shows that there are expert in the board composition of deposit money banks in Nigeria.

Finally, *fsze* accounted for average 16.462, std dev 3.363. The high value of mean distribution suggest the banks under review are different sizes while, the standard deviation explained the relative spread of the distribution across the study banks in Nigeria. In addition, the maximum and minimum value of the distributions is **22.102 and 11.192** with skewness and kurtosis values of **0.261 and 1.523** respectively. Summarily, it can be observed that the value of the standard deviations across the variable varies substantially from their means suggesting wide variations. Similarly, values of skewness and kurtosis are constantly less than 2.0 and 7.0 threshold (Currhi et al., 1996) which substantiate that the data for the study are normal.

Table 2
Correlation Matrix

Variable	llp	icw	bodsize	bodind	bodmet	bodten	bodgen	bodexp	fsze
Llp	1.000								
icw	0.244 (0.007)	1.000							
bodsize	-0.009 (0.924)	-0.080 (0.384)	1.000						
bodind	-0.038 (0.674)	0.0186 (0.839)	0.194 (0.033)	1.000					
bodmet	-0.097 (0.289)	-0.183 (0.045)	0.163 (0.075)	0.124 (0.178)	1.000				
bodten	-0.188 (0.039)	0.243 (0.007)	0.270 (0.003)	0.239 (0.008)	0.190 (0.037)	1.000			
bodgen	-0.021 (0.816)	0.077 (0.403)	0.382 (0.000)	0.333 (0.000)	0.215 (0.018)	-0.008 (0.932)	1.000		
bodexp	-0.124 (0.174)	-0.015 (0.868)	0.406 (0.000)	0.141 (0.124)	-0.019 (0.834)	0.052 (0.574)	0.277 (0.002)	1.000	
fsze	0.634 (0.000)	0.447 (0.000)	-0.112 (0.223)	0.031 (0.739)	-0.111 (0.226)	-0.015 (0.872)	-0.091 (0.320)	-0.013 (0.889)	1.000

Source: Stata 14 Outputs, 2020.

Table 2 shows that *bodsize* (-0.0088, 0.9239) *bodind* (-0.0388, 0.6741), *bodmet* (-0.0975, 0.2894), *bodten* (-0.1885, 0.0392), *bodgen* (-0.0214, 0.8163) and *bodexp* (-0.1247, 0.1746) are negatively related to LLP while *fsze* 0.6347 (0.0000) which is the control variable is positively related to *llp* of deposit money banks in Nigeria. Similarly, *bodsize* (-0.0801, 0.3843), *bodmet* (-0.1837, 0.0447), *bodexp* (-0.0153, 0.8686) are negatively related to *icw* while *bodind* (0.0186, 0.8399), *bodten* (0.2432, 0.0074), *bodgen* (0.0771, 0.4028) and *fsze* (0.4472, 0.0000) are positively correlated with *icw*.

Among the independent variables, it was revealed that *bodind* 0.1944 (0.0333), *bodmet* 0.1634 (0.0746), *bodten* 0.2704 (0.0028), *bodgen* 0.3825 (0.0000) and *bodexp* 0.4663 (0.0000) are all positively related to *bodsize* while *fsze* -0.1121 (0.2227) is negatively related to *bodsize*. On the other hand, *bodmet* 0.1237 (0.1784), *bodten* 0.2390 (0.0086), *bodgen* 0.3333 (0.0002), *bodexp* 0.1413 (0.1236) and *fsze* 0.0307 (0.7390) respectively are all positively correlated with *bodind*. Equally, *bodten* 0.1902 (0.0374) and *bodgen* 0.2146 (0.0186), are positively correlated with *bodmet* while *bodexp* -0.0193 (0.8340) and *fsze* -0.1014 (0.2259) are negatively related to *bodmet*. Also, *bodgen* -0.0079 (0.9321) and *fsze* -0.0149 (0.8715) are negatively correlated with *bodten* while *bodexp* 0.0518 (0.5738) is positively related to *bodten* while, *bodexp* 0.2776 (0.0021) positively related to *bodgen*, *fsze* -0.0916 (0.3200) negatively related to *bodgen*. However, the relationship between *bodexp* and *fsze* -0.0128 (0.8893) is found to be negative. From the correlation analysis, it was observed a mild link suggesting that all explanatory variables can exist without raising concern of multicollinearity.

Table 3
Results of Multicollinearity Test

Variable	VIF	TV
bodsize	1.47	0.682
bodgen	1.40	0.715
bodexp	1.25	0.802
bodind	1.21	0.825
bodten	1.20	0.831
bodmet	1.12	0.897
fsze	1.03	0.970
Mean	1.24	

Source: Stata 14 outputs, 2020

According to Hair et al. (2014), VIF of 2 and TV of 1 is the acceptable threshold. Hence, all the independent variables is 1.24 and TV constantly less than 1 suggesting no evidence of collinearity.

Table 4

Results of Regression Analysis

	Random Effect Model (LLP)		Random Effect Model (ICW)	
	z	p > z	z	p > z
Constant	2.18	0.031 (4.79)	-0.24	0.812 (-1.448)
Bodsize	2.38	0.019 (0.206)	-2.03	0.042 (-0.371)
Bodind	-0.35	0.729 (-0.124)	-0.88	0.381 (-0.584)
Bodmet	-0.32	0.748 (-0.065)	-0.96	0.335 (-0.437)
Bodten	-2.82	0.006 (-0.431)	2.47	0.013 (1.017)
Bodgen	0.34	0.732 (0.078)	2.76	0.006 (1.312)
Bodexp	-2.49	0.014 (-0.665)	-0.40	0.692 (-0.215)
Fsze	9.41	0.000 (0.641)	2.20	0.000 (0.829)
R ² overall		0.4659		0.3342
Wald chi ² (7)		34.17		18.28
Prob > chi ²		0.000		0.0108
Hetest		0.67 (0.412)		10.66 (0.001)
Breusch and Pagan Lagrangian Multiplier		35.79 (0.000)		25.15 (0.000)
Hausman Test		1.75(0.972)		7.20 (0.409)

Source: Stata 14 Outputs, 2020.

P-value is 5%

For interpretation of the findings contained in Table 4, both z-value (t-value) and its probabilities are used. In Table 4, the z-value is the t-value, while the first value is the probability value and the second is the coefficient. In Model LLP, the study reveals that there is absence of heteroskedasticity as the value of hettest was 0.67 (0.4123). The Breusch and Pagan Lagrangian multiplier which was used to decide between OLS and REM shows a value of 35.79 (0.000) suggesting the presence of panel effects in the model. Results of Hausman specification test suggest that REM was preferable. The R^2 overall of 0.4659 shows that the variation in the dependent variable and independent variable stood at 46.59% which is statistically significant at 1% significant level. It means 46.59% of change in FRQ are explained by independent variables jointly while, 53.41% are accounted for by variables that are not captured in this study. In addition, the Wald χ^2 (7) of 34.17 and p-value (0.000) indicates model fitness, as such explained changes in FRQ.

In Model ICW shown by Table 4, hettest 10.66 (0.001) suggests the presence of heteroskedasticity and serial (auto) correlation. The study also examines the preferred model between OLS and REM. The Breusch Pagan Lagrangian Multiplier Test results 25.15 (0.0000) means refusal means there is presence of panel effects in the model and that the variance of random effect is not equal to zero and as such random effects is preferable to OLS. The Hausman specification test reveals the value of 7.20 (0.4087). Therefore, REM is better than FEM. Therefore, this study utilized random effects in the analysis of Model ICW. The random effect regression shows an R^2 overall of 0.3342 or 33.42% shows the extent the independent variables explained the predictor variables. Hence, about 33.42% were accounted for in the model while the remaining factors were not captured in the study. The Wald χ^2 (7) of 18.28 which is significant at 5% shows that the model is fit and as such provides variables that assess their impact on FRQ.

The results in Table 4 can be compared and contrasted with previous empirical literatures. For example, while this paper found board size to be positive and significant, Rotich (2017) equally found board size to be significant and positive. This paper found board independence to be negative and non-significant; Firoozi et al. (2016) found no relation at all. Furthermore, this study found board meeting to negative and non-significant; Koevoets (2017) and Adebisi (2017) found it to be negative but significant. In the paper, board tenure was found to be positive and significant, Keehwan and Joon (2014) found it to be negative.

In this study, while we found board expertise to be negative and significant, Dabor and Dabor (2015) found no relationship; Alzoubi (2014) found negative effect and Hope and Kemebradike (2019) found positive and significant. Also, this paper found

board gender to positive but insignificant, Oba (2014) found it to be positive and significant, Aifuwa and Embele (2019) found it to be insignificant, Edwin and Timothy (2019) found board gender to be positive and significant.

The results of regression analysis in Table 4 were used tested hypotheses formulated. For this purpose, Model LLP was used because it shows better model fitness ($\text{prob} > \chi^2 = 0.0000$) than Model ICW ($\text{prob} > \chi^2 = 0.0108$) and greater R^2 overall (0.4589) than model ICW (0.3342). Henceforth, for the purposes of testing the statements of hypotheses, discussion of the results, conclusions and recommendations, Model LLP was used. In Table 6 Model LLP, *bodsize* ($t=2.38$, $p=0.019$). These two statistics indicate that board size has a significant effect on FRQ. Thus, hypothesis 1 is rejected. As indicated in Table 6 Model LLP, *independence* ($t=-0.35$, $p=0.729$). The two statistics indicate independence does not have effect on FRQ. As shown in Table 6 Model LLP, *board meeting* ($t=-0.32$, $p=0.748$). These two statistics indicate meeting does not have link with FRQ. Thus, statement of hypothesis three, board meeting does not have effect on FRQ is true and accepted. As shown in Table 6 Model LLP, *board tenure* ($t=-2.82$, $p=.006$). These two statistics indicate tenure does not have effect on FRQ. Thus, statement hypothesis four, tenure does not affect FRQ is false and rejected.

As indicated in Table 6 Model LLP, *gender* ($t=0.34$, $p=0.732$). These two statistics indicate gender does not have affect FRQ. Thus, the statement of hypothesis five, gender does not affect FRQ is true and accepted. As indicated in Table 6 Model LLP, *board expertise* ($t=-2.49$, $p=0.014$). These two statistics indicate expertise does not affect FRQ. Thus, the statement of hypothesis six, board expertise does not affect FRQ is false and rejected.

5.0 CONCLUSION AND RECOMMENDATIONS

Quality financial report is very important to all stakeholders (suppliers, society, government as a tax authority or as a regulator, creditors, shareholders, customers, managers, employees) as they rely heavily on the informational content in making financial investment decision. Giving the significant roles that banks play, there is need for sector to provide quality financial reports to guide both potential and existing investors. Hence, this study assesses the effects of board of directors through board characteristics on FRQ. Board characteristics was proxy by size, independence, meeting, tenure, gender and expertise while FRQ was proxied by loan loss provision and internal control weakness respectively. The result shows that board size has positive effect on FRQ while board tenure and board expertise have negative effects

on FRQ as proxied by loan loss provision. Conversely, independence and meeting are insignificant and negative while gender is insignificant and positive.

Following the results, these recommendations are made:

- a) The number of directors on the board of listed deposit money banks should be increased **to 30 as allowed by the Central Bank of Nigeria**. This is because the result showed positively enhances FRQ. This can be achieved by appointing experienced non-executive directors to the board so that banks can benefit from their experiences.
- b) The tenure of board members should be reduced because the result showed that the more time board members spent on the board, the more complacency sets in, resulting in poor productivity of board members.
- c) There is need to bring on board people with **greater** expertise in supervisory management **and** with financial expertise.
- d) There is also the need to appoint **more** female members to the boards of directors. Though, the result is not significant, it is an indication that the number of women on the boards of directors of the banks is very low.
- e) Although not statistically significant, the number of board meetings should be reduced because there is no evidence that board meetings have effect on FRQ.

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