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Do Board Size and Independence Affect Financial Reporting Quality of Government Statutory Entities in Nigeria?

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ABSTRACT: This study examines the effect of board size and board independence on the financial reporting quality of statutory entities in Nigeria. Using an ex-post facto research design, data were collected from the audited financial statements of 20 revenue-generating statutory entities from 2016 to 2021. The study employed Panel Least Squares (PLS) regression analysis to test the hypotheses. Findings reveal that board size has a significant but negative effect on financial reporting quality, suggesting that larger boards reduce governance effectiveness and hinder financial transparency. Similarly, board independence negatively and significantly affects financial reporting quality, indicating that a higher proportion of independent directors does not necessarily enhance financial oversight. This result may be attributed to political appointments of non-executive directors, weakening their monitoring role. The study contributes to corporate governance literature by providing empirical evidence on the governance dynamics in public sector entities. It recommends reducing board size to an optimal number, limiting politically influenced independent board appointments, and strengthening governance regulations to improve financial accountability. These findings have policy implications for the Federal and State governments in enhancing financial reporting transparency and public sector governance.

KEYWORDS: Board size, Board independence, Financial reporting quality, corporate governance, Public sector entities, Nigeria.

1. INTRODUCTION

Financial reporting quality is critical for ensuring transparency, accountability, and informed decision-making in both private and public sector entities. Many countries have adopted International Financial Reporting Standards (IFRS) to enhance comparability and consistency in financial disclosures (Organization for Economic Cooperation and Development (OECD), 2015). The composition of corporate boards, particularly in terms of size and independence, significantly influences financial reporting quality by shaping oversight mechanisms and governance structures.

In Nigeria, statutory entities, which are public organizations established by law play an essential role in governance, regulation, and service delivery. Unlike private corporations, their boards are often influenced by political appointments, regional considerations, and bureaucratic oversight, which may affect their effectiveness in ensuring accurate and transparent financial reporting (Li et al., 2016). Despite regulatory provisions such as the Fiscal Responsibility Act (2007) and Government Financial Regulations mandating timely and high-quality financial reporting, frequent board dissolutions and instability of tenure remain prevalent, raising concerns over governance efficiency (Section 3210, Government Financial Regulations).

While extensive research has explored the impact of board characteristics on financial reporting in private sector firms, limited studies focus on public statutory entities, which operate under different governance frameworks and often prioritize public welfare over profit maximization. This study examines the relationship between board size, board independence, and financial reporting quality in Nigerian statutory entities, highlighting their governance challenges and regulatory implications (Li et al., 2016).

Despite the recognized importance of board composition in financial reporting quality, research on public sector entities remains limited, particularly regarding board size and board independence (Ahmed & Che-Ahmed, 2016). Existing studies have largely focused on private sector organizations, overlooking statutory entities, which operate under distinct governance structures influenced by political appointments, regulatory oversight, and bureaucratic constraints (Bako, 2018).

A key gap in the literature is the absence of audit committees in public sector boards, which in private firms serve as mechanisms for independent financial oversight. Additionally, while International Public Sector Accounting Standards (IPSAS) require transparency, many statutory entities fail to meet financial reporting deadlines, raising concerns about board effectiveness in ensuring compliance (Bakare et al., 2018).

Furthermore, board independence, a critical factor in objective financial oversight, may be compromised by political influences, limiting its role in enhancing financial reporting transparency (Dang, 2018). Given these gaps, this study seeks to examine how board size and board independence affect financial reporting quality in Nigerian statutory entities, offering insights to improve governance practices and regulatory compliance. The objectives of this study are to:

i. Determine the effect of board size on financial reporting quality of statutory entities in Nigeria.
ii. Evaluate the effect of board independence on financial reporting quality of statutory entities in Nigeria.

While extensive research has examined the effect of board characteristics on financial reporting quality in private sector industries such as banking, manufacturing, and oil and gas, little attention has been given to statutory entities in the public sector. This study seeks to bridge this gap by providing one of the pioneering investigations into how board size and board independence influence financial reporting quality in Nigerian statutory entities. The findings will be valuable for policymakers, legislators, and executives in developing governance codes that enhance accountability, transparency, and public resource management. Additionally, the study will serve as a reference point for future research, encouraging scholars and practitioners to explore governance structures in the public sector. Ultimately, this research contributes to the existing body of knowledge by offering insights that can improve financial reporting standards and service delivery in government-owned organizations.

2. REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

Financial reporting quality is closely linked to the concept of earnings and earnings management, as the latter can either enhance or distort the reliability of financial reports. Earnings, commonly referred to as income or profit, represent the excess of revenue over expenses and serve as a measure of management effectiveness in utilizing resources (Farouk, 2014). While earnings provide a basis for assessing financial performance, earnings management occurs when organizations deliberately adjust reported earnings, either upward or downward, to meet strategic objectives. Although such practices may comply with Generally Accepted Accounting Principles (GAAP), they are often deemed unethical due to their potential to mislead financial statement users.

The quality of financial reporting is determined by how accurately financial statements reflect an entity's economic reality. Scholars have defined financial reporting quality as the faithful representation of a firm's financial position and performance, ensuring transparency, comparability, and reliability (Dechow et al., 1995; Bushman & Smith, 2001). Financial reporting quality is essential for providing stakeholders, including investors and regulators, with accurate information for decision-making (Francis et al., 2005). Furthermore, it involves ensuring that financial statements provide full, fair, timely, and understandable disclosures (Levitt, 1998).

Earnings management, on the other hand, involves manipulating accounting figures within legal constraints to achieve a desired financial outcome. Copeland (1968) defines it as the selective use of accounting rules to smooth income trends, while Barnea et al. (1976) highlight its role in reducing fluctuations in reported earnings. This process is often seen as a means for management to signal financial stability, though it raises concerns about distorting true financial performance. Some scholars argue that earnings management is an unavoidable consequence of accounting flexibility, while others view it as a strategy that undermines financial reporting integrity.

Among the various definitions, Schipper (1989) provides a widely accepted perspective, describing earnings management as deliberate actions taken within GAAP constraints to influence reported income levels. Naser (1993) extends this view by emphasizing how financial figures are adjusted to reflect management's preferences, sometimes by bending or selectively applying accounting rules. Given the regulatory and accountability requirements in public sector accounting, Schipper's (1989) definition is most relevant to this study, as it highlights how financial statements can be manipulated while still adhering to prescribed accounting standards.

The optimal board size varies across organizations, as there is no one-size-fits-all approach. Each entity must determine the appropriate number of directors based on its mission, governance needs, and operational structure (Sarkar et al., 2008). Factors such as the board's life cycle, fundraising requirements, and representational mandates influence its composition, sometimes necessitating a larger size to ensure broad representation. However, as group dynamics and communication efficiency are affected by board size, organizations must strike a balance to maintain effective decision-making and oversight (Park & Shin, 2003).

For this study, board size refers to the total number of directors legally provided for in the enabling Acts of statutory entities. It includes both executive (full-time) and non-executive (part-time) members responsible for governance and policy formulation in the public interest (Levrau & Van den Berghe, 2007). Since board structures vary across statutory entities, their sizes are defined by specific legislative provisions, and the study measures board size using the natural logarithm of the total number of board members to ensure comparability.

Executive directors possess specialized skills and in-depth knowledge of an entity's operations, but the presence of non-executive (independent) directors is essential to ensure objectivity and oversight (Firth et al., 2007). Agency theory advocates for a higher proportion of independent directors to prevent managerial dominance and reduce conflicts of interest, as boards dominated by executives may favor management's interests over those of stakeholders (Lee et al., 2006). By incorporating independent directors, firms enhance transparency, accountability, and corporate governance effectiveness (Florackis & Ozkan, 2004; Williams, 2006).

Effective corporate governance requires a board that actively monitors management behavior and remains independent of executive influence. However, conflicts of interest often arise, limiting the ability of board members—especially executive directors—to exercise independent judgment (Fama & Jensen, 1983; Hashim & Davi, 2008). To mitigate this, outside directors provide necessary oversight and safeguard stakeholders' interests. Studies suggest that independent directors are better equipped to restrain aggressive managerial actions, ensuring that financial and strategic decisions align with broader corporate goals (Peasnell et al., 2002; Vafeas, 2005).

In the context of public sector entities, board independence is defined by the proportion of non-executive directors to total board members, as outlined in each agency's enabling law. A higher percentage of full-time executive directors reduces board independence, whereas greater representation of non-executive directors strengthens governance and oversight. Thus, the effectiveness of board independence in Nigerian statutory entities is largely influenced by the appointment structure and regulatory framework governing public institutions.

2.2 Empirical Review

Board Size and Financial Reporting Quality

The empirical studies on board size and financial reporting quality presents mixed findings. Oba (2014) examined board dynamics in Nigerian listed firms and found a negative but insignificant effect of board size on earnings management. Similarly, Fodio et al. (2013) studied insurance firms in Nigeria and reported a significant negative relationship between board size and earnings management. However, their findings were questioned due to methodological limitations, including an unsuitable proxy for earnings management and possible model misspecification.

Holtz and Neto (2013) explored board characteristics in Brazilian firms and found that larger boards negatively affected earnings informativeness, suggesting inefficiencies in financial reporting oversight. Abdul Rauf et al. (2012) analyzed Malaysian listed firms and found no significant relationship between board size and earnings management, while Dimitropoulos (2011) observed that smaller boards in European football clubs were linked to higher-quality financial reporting, as corporate governance mechanisms helped reduce earnings manipulation.

Zhang and Li (2007) studied Chinese listed firms and found no significant relationship between board size and earnings management, implying that other corporate governance factors might play a more dominant role in financial reporting quality. These mixed findings highlight the contextual nature of board effectiveness, as governance structures, regulatory environments, and industry-specific factors influence financial reporting practices across different countries.

Overall, while some studies suggest that an optimal board size enhances financial reporting quality, others indicate no significant relationship. The implications for Nigerian public sector entities remain unclear due to variations in governance frameworks, regulatory oversight, and operational structures. Future research should focus on sector-specific governance dynamics to establish a more precise understanding of how board size influences financial reporting quality in public institutions.

Board Independence and Financial Reporting Quality

Several studies have examined the relationship between board independence and financial reporting quality across different industries and regulatory environments. Nurhe and Iyayi (2023) investigated this relationship among non-financial companies in Nigeria and found that board independence positively influences financial reporting quality. They emphasized that an independent board, composed of professionals with financial expertise, enhances financial oversight. However, their findings may not be entirely applicable to public sector entities due to different regulatory requirements.

Porter and Sherwood (2023) explored how firms comply with SEC regulations on board independence in the U.S. and how different routes to compliance affect financial reporting quality. They discovered that increasing board size to meet independence requirements leads to higher reporting quality. This highlights the importance of how independence is achieved, rather than independence itself. Their study focuses on private sector firms, making its relevance to public sector entities in Nigeria limited.

Kabwe (2023) examined board independence and financial reporting quality in Zambian-listed companies. The study found a negative but insignificant relationship, suggesting that board independence alone does not necessarily enhance reporting quality.

The findings imply that other governance attributes may be needed to improve financial oversight. However, due to differences in regulatory structures, these results may not apply directly to public sector organizations.

Tawfika et al. (2023) analyzed the impact of board diversity on financial reporting quality in GCC-listed firms. Their findings showed that companies with higher board independence had stronger financial reporting quality. This study suggests that independence is crucial, but it may be influenced by other board characteristics. However, the differences in regulatory environments between GCC countries and Nigeria limit the direct applicability of the results to Nigerian public sector entities.

Other studies have found mixed results regarding board independence and financial reporting timeliness. Ashibuogwu (2022) studied Nigerian commercial banks and found no significant effect of board independence on reporting quality. Similarly, Ibrahim and Abubakar (2019) concluded that board independence had a positive but insignificant effect on financial reporting quality in Nigerian deposit money banks. These findings suggest that board independence alone may not be a strong determinant of reporting quality and that other factors, such as board diligence and expertise, may play a more crucial role.

In the manufacturing sector, Kolawole et al. (2022) examined board attributes and reporting timeliness in Nigerian consumer goods firms. Their findings indicated that board independence had a positive and statistically significant effect on reporting timeliness. Likewise, Ogbonnaya (2020) found that board independence significantly impacted financial reporting quality in Nigerian pharmaceutical firms. These results reinforce the notion that board independence is essential but may have varying effects depending on industry-specific factors.

Some studies have suggested that board independence might not always enhance reporting quality. Aifuwa and Embele (2019) found an insignificant relationship between board independence and financial reporting quality in Nigerian manufacturing firms. Similarly, Bako (2018) found that board independence had no significant impact on financial reporting quality in the Nigerian chemical and paint industry. These studies suggest that while independence is important, it may not be the sole factor influencing financial reporting outcomes.

International studies also present diverse findings. Elad et al. (2018) found that board independence positively impacts firm performance, particularly by improving shareholder wealth and corporate discipline. However, their study was based on multiple countries and focused on private-sector entities, limiting its relevance to Nigerian public sector organizations. Similarly, Ohaka and Akani (2017) found no significant relationship between board independence and the timeliness of financial reporting in Nigerian firms.

Al Daoud et al. (2017) examined board independence and financial reporting timeliness in Jordanian companies. Their study suggested that while independent boards ensure higher-quality audits, they can also lead to longer reporting delays due to increased scrutiny. This finding highlights a potential trade-off between financial reporting quality and timeliness. Given the different regulatory environments between Jordan and Nigeria, its direct applicability to Nigerian public sector entities may be limited.

Lastly, Chouaibi et al. (2016) investigated the role of board independence in reducing earnings management in Tunisian firms. They found that independent boards were effective in limiting sales manipulation and improving financial integrity. However, the study's relevance to Nigeria's public sector is limited due to differences in operating conditions, regulatory frameworks, and the period covered in the research.

Overall, while board independence generally contributes to financial reporting quality, its impact varies by industry, regulatory environment, and additional board attributes such as expertise and diversity. Future research should explore sector-specific governance mechanisms and how they interact with financial reporting outcomes.

2.3 Theoretical Review

The theoretical review explores three key theories underpinning board characteristics and financial reporting quality: Agency Theory, Upper Echelon Theory, and Resource Dependency Theory. Agency Theory, which serves as the principal foundation of the study, was independently developed by Barry Mitnick and Stephen Ross in 1973. It describes the relationship between shareholders (principals) and directors (agents), emphasizing the conflict that may arise when managers prioritize personal interests over shareholders' goals. This theory highlights the necessity of independent boards to monitor managerial actions and minimize agency costs. By ensuring proper oversight, independent boards help reduce earnings manipulation and enhance financial reporting quality.

Jensen and Meckling (1976) further expanded on Agency Theory by defining the agency relationship as a contract in which principals delegate decision-making authority to agents, who are expected to act in the principals' best interest. However, goal misalignment can lead to agency problems, necessitating strong governance mechanisms to protect shareholders. Within the study's context, Nigerian revenue-generating agencies are viewed as agents acting on behalf of the citizens, emphasizing the need for effective governance to ensure resources are managed efficiently for public welfare. This reinforces the relevance of Agency Theory in examining board independence and financial reporting quality.

The Upper Echelon Theory, developed by Hambrick and Mason (1984), asserts that organizational outcomes are influenced by the characteristics of top management. A diverse board in terms of gender, expertise, and background enhances corporate monitoring and reduces managerial opportunism, ultimately improving financial reporting quality. This theory suggests that organizations with diverse senior management teams are more likely to minimize earnings management and maintain transparency in financial reports. By emphasizing the role of board diversity, Upper Echelon Theory complements Agency Theory in explaining how governance structures impact financial oversight.

Additionally, the Upper Echelon Theory stresses that senior executives' diverse experiences shape governance quality and strategic decisions. A board comprising individuals from various professional backgrounds ensures more effective oversight, reducing the risk of earnings manipulation. This aligns with the study's focus on board diversity as a key determinant of financial reporting quality. It also affirms that a well-structured and diverse board fosters accountability, ultimately strengthening corporate governance.

Resource Dependency Theory, introduced by Pfeffer and Salancik in 1978, highlights the importance of external resources in shaping organizational behavior and governance structures. It argues that companies strive to secure vital resources for their survival and growth, often by establishing inter-organizational relationships. This theory implies that the effectiveness of a board is not merely determined by its composition of executive and non-executive directors but by its ability to access critical information and resources. Board members' networks and expertise, including the presence of women and skilled professionals, provide strategic advantages that enhance decision-making and financial oversight.

By supporting the principles of Agency Theory, Resource Dependency Theory reinforces the importance of an independent and well-connected board in mitigating conflicts of interest. It underscores the role of board size, gender diversity, and expertise in corporate governance, suggesting that a strategically composed board can enhance financial reporting quality. As corporate governance evolves globally, ensuring that boards have access to relevant resources and external linkages becomes increasingly important in maintaining financial transparency and accountability.

3. METHODOLOGY

The study adopts an ex-post facto research design, which allows for the examination of the relationship between board size, board independence and financial reporting quality using historical data. A quantitative and deductive approach is employed, aligning with the positivist paradigm, which focuses on objective measurements and statistical analysis without human interaction. This philosophy assumes an independent reality that can be studied empirically through data collection, classification, and interpretation.

The study focuses on sixty-six (66) government statutory entities classified as revenue-generating agencies in Nigeria. However, due to data availability, only twenty (20) agencies with complete financial reports are included in the sample. A purposive sampling technique is employed to ensure that only relevant agencies are analyzed, as they are required by law to submit annual financial reports under the Fiscal Responsibility Act (2007) and Financial Regulations (2009).

Secondary data sources are used, primarily extracted from the audited annual reports of the selected statutory entities. Board characteristics, such as board size, independence, financial expertise, diversity, and tenure stability, are obtained from the directors' reports, while financial performance data is derived from financial statements. Yoon et al. (2012) model is used to measure financial reporting quality by assessing accrual-based earnings management.

For data analysis, Panel Least Squares (PLS) regression is employed, allowing the study to account for individual agency characteristics and heterogeneity over time. Stata 17 is used for statistical computations, given its efficiency in handling panel data. Descriptive statistics summarize data trends, while correlation analysis examines relationships between variables. Regression analysis determines the effect of board characteristics on financial reporting quality, using R^2 to measure explanatory power and F-statistics to test model fitness.

The study's model specification is based on Yoon et al. (2012), which modifies Dechow et al. (1995) to estimate financial reporting quality through discretionary accruals. This is specified as follows:

$$TA/A_{t-1} = \beta 0 + \beta 1\Delta REV/A_{t-1} + \beta 2\Delta NREC/A_{t-1} + \beta 3PPE_{t-1}/A_{t-1} + \beta 4INTG_{t-1}/A_{t-1} + \varepsilon$$

Where, TA, A_{t-1}, REV, NREC, PPE and INTG respectively represent total accruals, lagged total assets, revenue, net receivables, property, plant and equipment, lagged intangible assets. The study makes use of the absolute measure as a proxy for the extent of opportunistic earnings (revenue) management and hence financial reporting quality.

The equation is represented as follows:

$$FRQ_{it} = \beta_0 + \beta_1 BSZ_{it} + \beta_2 BID_{it} + \beta_3 ES_{it} + \beta_4 EG_{it} + \mu_{it}$$

Where:
FRQ = Financial Reporting Quality
BSZ = Board Size
BID = Board Independence
ES = Entity Size
EG = Entity Growth
$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficient of explanatory variables
β_o = Constant
μit = Error Term

Control variables such as entity size and entity growth are included to enhance result robustness. Entity size is measured using the natural logarithm of total assets, while entity growth is computed as the percentage change in total assets from the previous year. The model provides a structured approach to quantifying board characteristics' impact on financial reporting quality. Table 1 shows the variables Measurement.

Table 1 Variables Measurement

Variable	**Nature of Variable**	**Proxy(ies)**	**Measurement/Source**
Financial Reporting Quality	Dependent Variable	Discretionary Accruals	Modified Dechow et al. (1995) by Yoon et al. (2012).
Board Characteristics	Independent Variable	Board Size	Numbers of Directors on the Board in a particular year. Dimitaropoulos (2011)
	Independent Variable	Board Independence	Proportion of Outside Directors sitting on the Board to total number of board members. Nurhe and Iyayi (2023)
	Control Variable	Entity Size	Natural logarithm of Total Assets. Klein (2002).
	Control Variable	Entity Growth	Total assets of the current year minus total asset of the previous year divided by total assets of the previous year. Kumar and Zattoni (2014).

Source: Compiled by the Authors (2025).

4. RESULTS AND DISCUSSION OF FINDINGS

This section explains the relationship between the independent variables and financial reporting quality of government entities in Nigeria using coefficient value, t-statistics value and the probability value to demonstrate the direction and the strength of relationship between the variables. However, the R^2 is used to test the cumulative effect of board size and independence on financial reporting quality. The F-statistics and its probability values were used to ascertain the fitness and the predictability of the independent variables on the dependent variable in the study models. In addition, several diagnostic tests were conducted to ensure the robustness of the regression analysis. Multicollinearity was assessed using the Variance Inflation Factor (VIF), with a mean VIF of 1.11, which is below the threshold of 10, confirming the absence of multicollinearity. Heteroskedasticity was detected using the Breusch-Pagan test, indicating non-constant variance across residuals; however, this was addressed using robust regression estimation. The Kernel Density test confirmed normality of residuals, ensuring that the regression model assumptions were met.

Descriptive Statistics

The descriptive statistics is presented in Table 2 showing the minimum, maximum, mean, standard deviation, skewness, kurtosis and Shapiro Wilk of the data regarding the variables used in the study.

Table 2: Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev.	Sktest	Swilk	Kurtosis
FRQ	0.1547	574.9000	26.5400	99.5300	0.0000	0.0000	0.0000
BSZ	3.0000	28.0000	13.3500	5.5600	0.0236	0.0065	0.1170
BID	0.0900	0.9300	0.6600	0.2000	0.0005	0.0000	0.1044
ES	16.8900	27.9000	22.9000	2.6300	0.0165	0.0001	0.3890
EG	-0.9400	0.9900	0.1200	0.3900	0.1838	0.0008	0.2024

Source: Descriptive Statistic Results using STATA 17

Table 2 shows the minimum value for financial reporting quality is 0.1547 implying that the quality of earnings (revenue) management was high within the statutory entities in Nigeria. When compared with the highest level of residual from the discretionary accrual of Yoon, Kim and Woodruff model, it depicts that revenue generation was high due to the value recorded for maximum. The mean value further substantiates the fact that earnings (revenue) management was high within the study period. However, this result may not be reliable looking at the value of the standard deviation which is far and above the mean value. The p-value for both skewness and kurtosis, from the Jacque bera result which is significant at 1%, shows that the data for financial reporting quality was not normally distributed.

Board size recorded a minimum value of three (3) and a maximum value of twenty-eight (28). This implies that the lowest number of board members in statutory entities in Nigeria within the study period was three board members, while the maximum number of board members was twenty-eight. However, on the average, the number of board members was about thirteen (13). This means that most of the statutory entities in Nigeria had thirteen members on their boards. The standard deviation recorded implies that the mean value for board size was the true mean for the banks as it recorded a low value than its respective mean. The skewness and kurtosis value showed that the data is not normally distributed. This is further buttressed by the significant value from the Jacque bera statistics test which shows a significant p-value at 1%.

Board Independence has a minimum value of 0.09 and maximum value of 0.93. This means that the minimum percentage of independent non-executive directors is 0.09% for statutory entities in Nigeria, while the maximum composition of independent non-executive directors, to the total number of board members, is 93%. The average percentage of independent non-executive directors, to the total number of directors, stood at about 66%. This implies that most of statutory entities in Nigeria had more independent non-executive directors than executive directors on their boards. The standard deviation shows that the average value recorded represents the true mean with a little deviation, while the Jacque bera p-value of 5% implies that the data is not normally distributed.

The lowest value recoded for entity size is 16.89 while the highest is 27.9. The mean value of total assets of government entities under study stood at 22.9 while the standard deviation is 2.63 which is lower than its respective mean value indicates that there is a low deviation of mean. The skewness and kurtosis values were not within the acceptable level. Also, the Jacque bera p-value of 1% indicates that the data for entity size was not normally distributed.

Entity growth has a minimum value of -0.94 and a maximum value of 0.99. This shows that within the entity, there were entities with negative growth, while the highest percentage of entity growth was 99%. On the average, all the entities had, at least 12% growth within the study period. The standard of entity growth indicates that the mean represents the true mean for the variable. The Jacque bera statistic test shows a p-value of 1% implying that the data do not follow the normal distribution.

Table 3: Summary of Robust Ordinary Least Square Regression

Variables	Coeffi	t-Stat	Prob
Constant	468.1	3.77	0.000
BSZ	-1.994	-2.10	0.038
BID	-119.7	-3.56	0.001
ES	-17.01	-3.25	0.002
EG	20.91	3.77	0.000
R^2			0.3682
F-Statistics			3.0300
P-Value			0.0060

Source: Result output from STATA 17

DISCUSSION OF FINDINGS

4.1 Board Size and Financial Reporting Quality

The findings from the regression analysis indicate that board size has a negative and significant effect on financial reporting quality among Nigerian statutory entities. The regression coefficient for board size is -1.994 with a t-value of -2.10, which is statistically significant at the 5% level (p = 0.038). This suggests that as board size increases, financial reporting quality declines. Specifically, for every additional board member, financial reporting quality decreases by 1.994 units, holding other variables constant.

A possible explanation for this negative relationship is that larger boards may lead to inefficiencies in decision-making, slowing down financial reporting processes. Additionally, an increase in board size does not necessarily imply a corresponding increase in expertise, as it may introduce coordination challenges and dilute accountability. In statutory entities, particularly those subject to political appointments, a larger board may increase the risk of bureaucratic inefficiencies, which could further compromise financial reporting quality.

This finding aligns with studies by Abdul Rauf et al. (2012), Ashibuogwu (2022), Ibrahim and Abubakar (2019), and Oba (2014), who found that larger boards tend to reduce financial reporting effectiveness due to challenges in governance and decision-making. However, it contradicts the findings of Daghsni et al. (2016), Jamaludina et al. (2015), and Tawfika et al. (2023), who reported a positive relationship between board size and financial reporting quality, suggesting that a larger board enhances oversight and governance effectiveness.

4.2 Board Independence and Financial Reporting Quality

The results further reveal that board independence has a negative and significant effect on financial reporting quality. The regression coefficient for board independence is -119.7, with a t-value of -3.56, significant at the 1% level (p = 0.001). This indicates that as the proportion of independent non-executive directors increases, financial reporting quality significantly declines.

This negative association is contrary to the conventional expectation that independent directors enhance financial reporting oversight. One possible reason is that independent directors, particularly those with extended tenures, may develop close relationships with executive directors, reducing their effectiveness in mitigating earnings management and financial misreporting. Additionally, in government entities where political appointments are prevalent, independent board members may be appointed based on political affiliations rather than technical expertise, potentially undermining their role in ensuring financial transparency.

These findings contrast with prior research, such as Kolawole et al. (2022), Nurhe and Iyayi (2023), and Porter and Sherwood (2023), which suggested that board independence improves financial reporting quality by strengthening monitoring mechanisms. However, they are consistent with the findings of Daghsni et al. (2016), Kabwe (2023), and Yohan (2016), who reported that independent directors may not always be effective in improving financial reporting quality, particularly in environments where regulatory enforcement is weak or where board appointments are influenced by political considerations.

The results of this study indicated that higher number of full-time executive directors on the board will enhance the quality of financial reports in the public sector entities. This is contrary to what is obtainable in most of the private sectors studies in the area. The finding may not be unconnected with the fact that on the event of any contravention of rules, regulations, noticeable manipulations or any other infringements, full-time executive directors are usually the first to be invited to appear before the relevant committees of the National Assembly for necessary explanations. Also, depending on the gravity of the issue(s) involved, the full-time executive directors may also be invited by the Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices and Related Offences Commission (ICPCC), Nigerian Police or other Secret Intelligent Security Services for questioning and interrogations. In view of the above, it seems the full-time directors exercise high degree of meticulousness, integrity and professionalism in the course of financial reporting processes than independent non-executive directors which are usually appointed more often on the basis of political considerations.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The findings of this study highlight the complex relationship between board size, board independence and financial reporting quality in Nigerian statutory entities. Specifically, the study concludes that board size has a significant but negative effect on financial reporting quality, indicating that an increase in the number of board members tends to reduce the effectiveness of financial oversight. Larger boards may introduce inefficiencies in decision-making, dilute accountability, and create bureaucratic challenges that hinder financial transparency.

Similarly, board independence was found to have a significant but negative effect on financial reporting quality, suggesting that a higher proportion of independent directors does not necessarily improve financial reporting. This could be attributed to political influences in board appointments, where non-executive directors may prioritize personal or political interests over accountability and transparency.

These findings have important implications for corporate governance in the public sector. The negative impact of board independence and board size on financial reporting quality suggests the need for reforms in board composition, including limiting board size to an optimal number and ensuring that independent directors are appointed based on merit and professional expertise rather than political affiliations. The results also call for enhanced oversight mechanisms to strengthen accountability in statutory entities.

5.2 Recommendations

The recommendations of this study include:

1. **Optimizing Board Size for Effective Governance:** The Federal Government should establish a code of public governance specifying an optimal board size for statutory entities. Based on the study's findings, a board size of thirteen (13) members is recommended to balance efficiency and diversity while maintaining accountability. This recommendation aligns with the study's results, which indicate that larger boards are associated with lower financial reporting quality (β = -1.994, p = 0.038).
2. **Rethinking Board Independence to Enhance Oversight:** The government should reduce the proportion of non-executive directors on statutory boards and ensure that appointments prioritize expertise rather than political affiliations. A 2:3 ratio in favor of full-time executive directors is recommended, ensuring that the majority of board members are actively engaged in governance and financial reporting processes. This recommendation is based on the study's finding that a higher number of non-executive directors negatively affects financial reporting quality (β = -119.7, p = 0.001).

5.3 Policy Implementation Strategy

To operationalize these recommendations, a Technical Committee composed of experts from academia, finance, and public administration should be established. The committee's mandate should include:

- Reviewing the recommendations and assessing their applicability to different statutory entities.
- Proposing amendments to the Establishment Acts of affected agencies to align with best practices in corporate governance.
- Drafting a Public Governance Code to standardize board composition, financial expertise requirements, and tenure stability.

Following the committee's work, the government should submit an Executive Bill to the National Assembly for legislative approval. Similar reforms should be pursued at the state level, where state governments can adopt governance frameworks that align with national best practices. Upon legislative approval, the implementation of these policies should be monitored through an independent regulatory body to ensure compliance and effectiveness.

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