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Capital Structure and Financial Performance of Listed Deposit Money Banks in Nigeria: The Moderating Role of Audit Committee Independence

[1] Onunaka, Uzoamaka Faith, [2] Okezie, Stella O. and [3]Godspower, Jennifer Odinakachi.
[1,2&3]Department of Accounting, College of Management Sciences,
Michael Okpara University of Agriculture Umudike.
Umuahia, Abia State, Nigeria. [1]Corresponding author's Email: churchillokoro@gmail.com

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Abstract

The study examined moderating effect of audit committee independence on the relationship between capital structureand financial performance of listed deposit money banks in Nigeria. The study employed ex-post facto research design and extracted secondary data from annual reports of five (5) selected listed deposit money banks in Nigeria fromthe Nigerian Exchange Group Floor listingfor the period 2013 to 2022. Data were analyzed using the Multiple Regression Analysis. The results of the finding revealed that Capital Structure has a significant effect on Return on Assets of listed Deposit Money Banks in Nigeria. Also, the result of the moderation revealed that after introducing the moderating variable (audit committee independence) on the relationship between capital structure and financial performance, Audit committee independence has a significant moderating effect on the relationship between capital structure (Debt to Equity and Long term debt) and Return on Assets of listed deposit money banks in Nigeria. Therefore the study recommends that in order to improve performance, corporate managers are advised to reduce financial leverage. This offers substantial evidence that using debt capital as opposed to equity capital has a detrimental impact on the performance of listed deposit money banks in Nigeria. The study also recommends that Board of Directors of listed deposit money banks in Nigeria should include financially literate non-executive members in the audit committee who have specific industrial experience and financial knowledge to make optimal capital structure decisions that will improve the firm's financial performance. The study also suggests that Regulatory authorities such as Financial Reporting Council of Nigeria (FRCN), Corporate Affairs Commission (CAC) and Security and Exchange Commission (SEC) should ensure strict adherence to code of corporate governance by listed deposit money banks in Nigeria so that the various stakeholders' interest would be protected fully.

Keywords: *capital structure, Audit committee independence, Return on Asset, Corporate Governance*

1. INTRODUCTION

Recently, there has been a lot of debate in the accounting literature concerning how corporate governance impacts an organization's success. Since the global economic crisis and the collapse of a series of large corporations in the world such as the collapse of Enron in 2001 and WorldCom in 2002, corporate governance issues have got too much attention in today's corporate world that it has become the subject matter of scholar's research, meetings in boardrooms and manager's education.

According to Organization for Economic Cooperation and Development (2015), corporate governance establishes a set of relationships between a company's management, its board, its shareholders, and other stakeholders by providing a structure through which the company's objectives are determined, along with the means of achieving the objectives and monitoring the determined performance.

Financial scandals demonstrate that managers occasionally mislead stakeholders about the company's financial performance by releasing financial reports that do not accurately reflect the value of the company. As a result of these misrepresentations by managers, the organization must constitute a proactive, transparent and trustworthy audit committee to checkmate the activities of managers within the organization (Foyeke, Olajide, Oluku and Kolade 2016). This development made the key stakeholders devise a new strategy to curb business failure and improve the stakeholders' confidence in the financial report; the efforts that gave birth to Audit Committee (Uchennaph and Okelue, 2012).

The introduction of the Audit Committee by the Nigerian Companies and Allied Matters Act (CAMA) 1990 was an additional layer of control and certification to ensure the financial statements of public companies are more satisfactory and dependable. The independence of the board and its activities from influence is seen as a key pillar of good corporate governance practice (Heenetigala and Armstrong, 2011; Fadun, 2013). Most corporate governance guidelines in the world today extol the independence virtue, among them are OECD principles of corporate governance (2015), CBN Corporate Governance Guidelines for Commercial, Merchant, Non-Interest and Payment Service Banks in Nigeria (2023) and SEC Code of Corporate Governance for Public companies (2011). Independence is the main attribute of any audit committee as asserted by Zgarni, Hlioui and Zehri (2016), who suggested that the independence of a non-executive director is a crucial quality that contributes to the effectiveness of audit committee monitoring function.

The importance of financing decisions cannot be over emphasized since many of the factors that contribute to business failure can be addressed using strategies and financial decisions that drive growth and the achievement of organizational objectives (Salazar, Soto and Mosqueda, 2012). Financing decisions result in a given capital structure and suboptimal financing decisions can lead to corporate failure. A great dilemma for management and investors alike is whether there exists an optimal capital structure. The objective of all financing decisions is wealth maximization and the immediate way of measuring the quality of any financing decision is to examine the effect of such a decision on the firm's performance.

Although, researchers in developed Countries have carried out studies on the subject matter, however, in Nigeria there is a dearth in research on this issue, only but few researches such as

Liuraman and Dabari(2020), considered the moderating effect of board quality on the relationship between capital structure and firm performance. Udisifan, Akeem, Paul and Olalere(2021), examined Capital Structure and Firm Financial Performance:Moderating Effect of Board Financial Literacy in Nigerian Listed Non-financial Companies. Therefore, there is a need to add to the existing literature in another dimension using audit committee independence as the moderating variable. It is based on this that this study aims to examine the moderating effect of audit committee independence on the relationship between capital structure and financial performance of listed deposit money banks in Nigeria so that it can be seen whether audit committee independence strengthens this relationship or vice versa.

The main objective of the study is to examine theimpact of capital structure and audit committee independence on financial performance of listed deposit money banks in Nigeria. Therefore, the specific objective is: to examine the moderating effect of audit committee independence on the relationship between capital structure (Debt to Equity and Long term debt) and Return on Assets of listed deposit money banks in Nigeria.

Based on the objectives above, the study hypothesized that:

H_{01}: Capital Structurehas no significant effect on Return on Assets of listed Deposit Money Banks in Nigeria.

H_{02}: Audit committee independence has no significant moderating effect on the relationship between capital structure (Debt to Equity and Long term debt) and Return on Assets of listed deposit money banks in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Corporate governance

According to the Organization of Economic Cooperation and Development - OECD (2005), “Corporate Governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the major stakeholders/participants in the corporation, such as the board, managers, shareholders and even the other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance”.

Ammar, Saeed, and Abid (2013), defined corporate governance as a mechanism through which management takes necessary steps to safeguard the interest of stakeholders. Stability and good management can be achieved when firms incorporate corporate governance which is all about complying with stipulated standards, rules and regulations. Sound corporate governance increases the efficiency and value of a firm on the capital market rather than pulling it down and boost the confidence of all stakeholders.

2.1.2 Audit committee

Audit committee is a statutorily corporate governance mechanism introduced to curb financial reporting manipulation in order to enhance the quality of financial reports. However, the effectiveness of the audit committee is dependent on its attributes (Ormin, Tuta& Shadrach, 2015).The effectiveness of audit committees in overseeing the financial reporting process is found to be largely determined by several audit committee characteristics, including audit committee independence, financial and accounting expertise (Feng, 2014). The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate,

effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Nigerian's Companies and Allied Matters Act (CAMA) 2020, Section 404 (2) requires public traded firms to establish an audit committee. Section 404 (3) stipulates that the audit committee shall consist of five members comprising of three members and two non-executive directors, the members of the audit committee are not entitled to remuneration, and are subject to election annually.

2.1.3 Audit committee independence

Independence is the main attribute of any audit committee as asserted by Fama and Jensen (1983) who suggested that the independence of a non-executive director is a crucial quality that contributes to the effectiveness of audit committee monitoring function.According to the Global Institute of Internal Auditors (2021), an independent board member is not an employee, direct family member or member of the public sector organization, he/she may not partake in any other activities on behalf of the organization. The institute further defines independent audit committee member as a person who is not employed by, or providing any services to the organization beyond his or her duties as a committee member. An independent audit committee help in ensuring the reliability of the financial reporting process by keeping a check on manipulative, self-centered activities of managers.

2.1.4 Capital structure

Nirajini&Priya (2013), opined that capital structure refers to the means which firms financed their business through combination of long-term external capital and short term external capital. The capital structure is usually used to fund the development of a firm's business, with its use considered a crucial decision to make because of its direct influence on the risk and return of the firm. Choosing between internal or external financing presents a serious problem in companies. Capital structure and its impact on firm value and performance remain a puzzle in corporate finance theory and financial literature. Capital structure theory based heavily on large firms fails explain the optimal debt-to-equity mix.

- **Debt to Equity**

Equity includes paid-up share capital, premium, reserves and retained earnings. Debt to Equity is the ratio of total debt against total of paid-up share capital, premium, reserves and surplus in case of public sector or retained earnings. It indicates how an entity financed its business by either debt or equity. This is measured by dividing total debt by total equity. Equity may influence firm performance, since shareholders may not be entitled to dividends if company does not make profit in a particular accounting period. Company may as well decide to plug back the profit in the business in order to improve firm performance.

- **Long Term Debt**

Long term debt represents the percentage of firm's assets financed with loans which last for more than one accounting year. A high ratio is an indication that a business has greater business risk to face since the entity must pay both principal and interest at the end of the agreed period. Creditors may be unwilling to give finance to a company with a great debt position. Capital structure is absolutely concerned with long term debt used in firm.

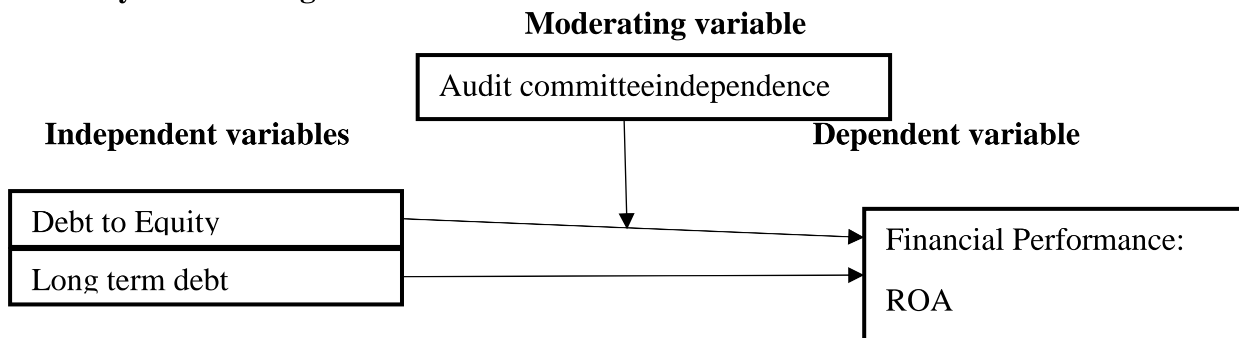
2.1.5 Financial performance

Financial performance which this study examined reveals how well an organization uses its financial resources and shows its financial health and fitness, as well as the results of the firm's work, operations, and policies. ROA has been chosen as the dependent variable and this refers to how much profit firms earn based on their asset investments, and how effectively managers use investors' funds. Return on assets measures how efficiently a company can manage its assets to produce profits during a period.

ROA = Profit before Tax / Total assets

Figure 1: Conceptual Framework

Audit committee independence, capital structure and financial performance of listed deposit money banks in Nigeria.



Source: Researcher's Compilation, 2024

2.2 Theoretical Framework

This study is anchored on the Agency theory and in conjunction with the Modigliani and Miller Capital Structure Irrelevance theory

Agency Theory

In order to investigate how audit committee independence affects the relationship between capital structure and financial performance of listed deposit money banks in Nigeria, this study adopts the Agency theory. The 1976 formulation of agency theory by Jensen and Meckling addresses the agency issue that may arise from a conflict of interest between debt holders and stockholders or between shareholders and managers. The link between the principle and agent is also aided by the agency theory in terms of the decision-making process with regard to the firm's composition of capital structure.

According to Jensen &Meckling (1976), the principal-agent agency dilemma is complex and plays a key role in choosing the best capital structure for a company to improve performance. When managers engage in opportunistic behaviors that promote their interests and grow their wealth rather than the wealth of the shareholders, agency problems occur. This issue could arise as a result of divergent objectives between the principal (shareholders) and agent (managers). This problem could develop when the principal is unaware of the agent's behavior or is constrained by a lack of resources in getting the knowledge.

However, because of the agents' opportunistic nature, organizations must now offer a body that will act as a watchdog in balancing the interests of agents and principal. The creation of an audit committee is one of the mechanisms. The statutory audit committee's independence, which is a component of the corporate board committee charged with overseeing control systems and

financial reporting processes, encourages stakeholders to place their trust in the financial reporting process. It also ensures the quality of audits and helps to identify any fraud that managers may have committed in order to advance their own interests over the firms' performance, shareholders' wealth, and other stakeholders. At the same time, the corporate governance framework of which the independence of the audit committee is a key component serves as an effective tool for meeting the needs and expectations of shareholders.

The Modigliani and Miller Capital Structure Irrelevance theory

The capital structure irrelevance theory, first put forth by Modigliani and Miller in 1958, claimed that decisions regarding a company's capital structure had no bearing on the firm's value. This theory was amended by Modigliani and Miller in 1963. According to the theory's premise, businesses functioning in a world with perfectly efficient markets don't have to pay taxes, and in a market with homogenous expectations there aren't any issues with asymmetric information, transaction costs, or bankruptcy costs. However, in real world context there are taxes, transaction costs, bankruptcy costs, differences in borrowing costs, information asymmetries and effect of debt on earnings. According to the M&M capital-structure relevance proposition, when corporate income tax is taken into account, the market value of businesses with higher levels of debt in their capital structures is equal to that of businesses with no debt. The theory's foundation was the claim that using debt provides a tax shield. In light of this claim, businesses can choose an all-debt capital structure, and this theory demonstrates how the capital structure influences a company's market value.

2.3 Empirical Review

Appah (2022) investigated the effects of corporate governance mechanisms on the value of deposit money banks in Nigeria from 2010 to 2020. The results from the multiple regression results disclosed that board independence, the board size, ownership structure, gender diversity and board meetings positively and significantly influence the value of deposit money banks in Nigeria. The study concluded that corporate governance attributes positively and significantly affect the value of deposit money banks in Nigeria.

Oluyinka (2021) examined the effect of the audit committee and capital structure on manufacturing firms' financial performance in Nigeria. The results indicate that the audit committee's numerical strength did not significantly affect financial performance. However, the positive effect of the audit committee's meeting on financial performance was statistically established. The study found that capital structure significantly moderated the outcome of the audit committee on financial performance.

Ngatno, Endang and Arief (2021) examined the moderating effect of corporate governance on the relationship between capital structure and firm performance. Results indicate that capital structure financing decisions have a positive contribution to financial performance. However, this only applies to short-term debt. Otherwise, long-term debt has a negative and insignificant effect on both return on assets and return on equity. These results support the view of the pecking order theory, as empirical evidence that the opposite effect between firm profits and capital structure. The results of the moderation analysis show that only the size of the board of commissioners can strengthen the relationship between capital structure and company performance, while board size and ownership concentration are not able to moderate the relationship between capital structure and company performance

Raad, Nor and Azam (2020) investigated the relationship of internal control components on the financial performance of the Iraqi banking sector by focusing on the moderating relation of the audit committee. The results showed that the audit committee supports the relationship of the control environment, risk assessment, and control activities. While it does not support the relationship of information & communication and monitoring, In conclusion, Audit Committee serves as an influential moderator between internal control components and financial performance.
Naveed, Ali, Hongxing, Alfar, and Sohu (2020) examined the corporate governance and profitability of banks in Pakistan. The study employed ex post facto and correlational research design. The target population consisted of 5 banks representing a sample size. The dependent variable was returned on assets and return on equity while the independent variables were board size and board independence. The study employed secondary data from the financial reports of sampled banks. The secondary data collected was analysed using univariate, bivariate and multivariate analysis. The study revealed that board size is negatively related to return on assets and return on equity while board independence showed a positive relationship with return on assets and return on equity.
Dakhlallh, Rashid, Abdullah and Al Shehab (2020) undertook a research on the Audit Committee and Tobins Q, using a sample of 180 Jordanian companies. Their findings showed evidence that there is a positive and significant association between the audit committee size, audit committee independence, and audit committee financial expertise with Tobin's Q.Their findings were consistent with the concept of both the agency and resource dependence theory, that the audit committee's independence has a positive effect on the performance of the firm. They proved that the performance of the firm can be improved by further financial knowledge and the abilities of the audit committee.
Sani, Aliyu, and Bakare (2019) carried out a study of corporate governance and financial performance of deposit money banks in Nigeria for the period 2011 to 2018.. The dependent variable was the return on assets (ROA) and the independent variables were CEOD and management equity holding. The findings revealed that CEO duality does not significantly affect the return on assets while management equity holding significantly affects the return on assets of deposit money banks in Nigeria.
Ochego, Omagwa, and Muathe (2019) investigated corporate governance on financial performance and firm value of commercial banks in Kenya for the period 2008 to 2018. The findings disclosed that corporate governance significantly affects firm value; corporate governance insignificantly influences financial performance; financial performance significantly affects firm value and also corporate governance significantly influences firm value.
Narinder and Mahima (2019) evaluated the effect of capital structure on the profitability of Nifty 50 companies listed on National Stock Exchange of India from 2008 – 2017. The data was analyzed using descriptive statistics, correlation and multiple panel data regression models. Four different regression models were used to study the relationship between capital structure and profitability. The study investigated the individual effect of total debt and total equity ratios on profitability, that is, ROA and ROE. All four models have been tested with pooled OLS, fixed effects, and random effects. The result indicated that there is significant positive impact of capital structure on firm’s profitability.
Mandal and Al-Ahdal (2018) investigated the effect of corporate governance on the financial performance of Indian electronic consumer companies for the period 2010 to 2017.The dependent

variables were returned on assets and return on capital employed and the independent variable consisted of board size, audit committee meetings and audit committee independence while the firm size was used as the control variable. The multivariate analysis disclosed that board size, audit committee meeting and firm size do not significantly influence financial performance as measured by return on assets (ROA) and return on capital employed. Also, audit committee independence does significantly affect financial performance as measured by return on assets (ROA) and return on capital employed.

3. METHODOLOGY

The study adopted the *ex-post facto* research design, this is because the data on the variables used in the study are already in existence. Secondary data were collected from audited financial statements of the five (5) listed deposit money banks selected from the Nigerian Exchange Group Floor listing for ten financial years (2013 - 2022).

3.1 Population of the Study and Sample Size

The study population consists of the 13 listed deposit money banks quoted on the Nigeria Exchange Group floor as of December 31, 2022. The study employed a purposive or judgmental sampling technique to select five (5) listed deposit money banks listed on the Nigeria Exchange Group out of the 13 listed money banks, namely; Zenith Bank Plc., Eco bank Nigeria Plc., United Bank for Africa Plc., Guaranty Trust Bank Plc. and Access Bank Plc. This selection is based only on banks whose shares are quoted on the Nigeria Stock Exchange (NSE) floor and whose financial statements are available. The technique is well suited for determining the sample as it provides an equal probability of selection and minimizes selection bias.

3.2 Model specification

In estimating the model, descriptive statistics was used to determine the normality of the data. The data collected was analyzed using panel data multiple regression analysis to establish the relationship between the independent variables and dependent variables. The following models were used to examine the moderating effect of audit committee independence on the relationship between capital structure and financial performance of listed deposit money banks in Nigeria. The models built for the purpose of analysis of this study are as follows;

$ROA = \beta0 + \beta1DTE + \beta2LTD + \beta3ACIND + \epsilon$ --- I

$ROA = \beta0 + \beta1DTE + \beta2LTD + \beta3ACIND + \beta4\ DTE * ACIND + \beta5\ LTD * ACIND + \epsilon$ ------ II

Where:

ROA = Return on Assets (Dependent Variable)
DTE= Debt to Equity (Independent Variable)
LTD = Long term debt (Independent Variable)
ACIND = Audit Committee Independence (Moderating Variable)
$\beta0$ = Intercept
$\beta1$ = Coefficient of Debt to Equity (Independent variable)
$\beta2$ = Coefficient of Long term debt (Independent Variable)
$\beta3$ = Coefficient of Moderating Variable
$\beta4$ = Coefficient of interaction between Audit committee independence and debt to equity
$\beta5$ = Coefficient of interaction between Audit committee independence and long term debt
ϵ = Error Term

3.3 Measurement of Variables

The variables of the study are measures as described in the table below:

Table 1 Operationalization of Variables

Variables	Measurement	Abbreviations
DEPENDENT VARIABLES (Financial Performance)		
Return on Assets	Profit before tax / Total assets	ROA
INDEPENDENT VARIABLES (Capital Structure)		
Debt to Equity	Total debt / Total Equity	DTE
Long term debt	Long-term Debt to Total Asset	LTD
Moderating variable (Audit committee independence)	Proportion of non-executive directors of the audit committee to the audit committee size.	ACIND

Source: Researcher's Compilation (2024)

4. RESULTS AND DISCUSSION

This section comprises the outcome of normality tests, post estimation tests, and tests of hypotheses.

4.1 Descriptive Statistics

Table 4.1 provides descriptive statistics for all chosen variables to be used in the analysis.

Table 4.1

	ROA	DTE	LTD	ACIND	DTE_ACIND	LTD_ACIND
Mean	0.028969	6.949793	0.124388	0.514667	3.497731	0.063532
Median	0.023086	6.329836	0.086531	0.500000	3.303673	0.044136
Maximum	0.172393	12.57883	0.834136	0.600000	6.415082	0.500482
Minimum	0.001124	2.121668	0.006831	0.333333	1.273001	0.002277
Std. Dev.	0.026513	2.065593	0.157592	0.089635	0.951951	0.081975
Skewness	3.321705	0.821739	3.337518	-0.884174	0.619429	3.788873
Kurtosis	18.23905	3.462673	14.15118	2.839800	4.165552	18.80901
Jarque-Bera	575.7574	6.073098	351.8853	6.568159	6.027672	640.3061
Probability	0.000000	0.048000	0.000000	0.037475	0.049103	0.000000
Sum	1.448453	347.4897	6.219392	25.73333	174.8865	3.176622
Sum Sq. Dev.	0.034444	209.0671	1.216933	0.393689	44.40430	0.329274
Observations	50	50	50	50	50	50

Source: E-View Output generation

Table 4.1 shows the summary of the descriptive statistics of the dependent variable, independent variables and moderating variables. The table shows the directions of variables used in the study. N represents the number of observations and therefore the number of observations for the study is 50. Return on asset (ROA) has a mean of 0.028969 with a standard deviation of 0.026513. Also, ROA reveals a maximum and minimum value of 0.172393 and 0.001124. The result also reveals that, Debt to Equity (DTE) reflects a mean of 6.949793 with a standard deviation of 2.065593. DTE also revealed a maximum value of 12.57883 and a minimum value of 2.121668.

The Table also illustrate that Long-term debt (LTD) has a mean of 0.124388 with a standard deviation of 0.157592. LTD reveals a minimum value of 0.006831 and a maximum value of 0.834136. The result also reveals that, Audit committee independence (ACIND) reflects a mean of 0.514667with a standard deviation of 0.089635. ACIND also revealed a maximum value of 0.600000and a minimum value of 0.333333.

The moderating effect of Audit committee on debt to equity (DTE_ACIND) has minimum score of 1.273001and maximum value of 6.415082and mean score of 3.497731, the result shows the standard deviation of 0.951951. Maximum score for long term debt moderated by audit committee independence (LTD_ACIND) is 0.500482, with minimum score of 0.002277and mean score is 0.063532, the standard deviation is 0.081975.

Normality of the variables was examined using the skewness, the ratio of skewness to its standard error can be used as a test of normality. According to Kline (2011), the univariate normality of variables can be assumed if the skewness statistic is within the interval (-3.0, 3.0) The data set for all the variables reveal skewness statistic values that are between the range of approximately -3 and +3. Which means that all the data values are within the accepted skewness range for normality**.**

4.3 Correlation Analysis

A correlation analysis was developed to analyze the relationships between the dependent and independent variables as this would assist in developing a prediction model. The correlation coefficient matrix is used to identify the direction and strength of the relationship between Capital Structure and financial performance as well as the moderating variable.

Correlation Matrix for Capital Structure and Financial Performance.

Table 4.2

	ROA	**DTE**	**LTD**	**ACIND**
ROA	1.000000			
DTE	-0.609468	1.000000		
LTD	0.514160	-0.232374	1.000000	
ACIND	0.171845	-0.435918	-0.035094	1.000000

Source: Author's compilation (2024)

Table 4.2 displays the correlation coefficient between capital structure and financial performance of the selected listed deposit money banks in Nigeria. According to this table the value of correlation coefficient between debt to equity (DTE) and ROA of the firm is -0.609468, which represents negative association between DTE and ROA. The negative association suggests that that the higher the value incurred by the entity in the debt to equity and at long run the lower the

propensity of the financial performance.In the same vein, the correlation coefficient between Long term debt (LTD) and ROA is0.514160 which shows a positive association with ROA indicating that the higher the value of long term debt incurred by the entity in the long run, the higher the value of the financial performance. The correlation coefficient between Audit Committee Independence (ACIND) and ROA is0.171845, which reveals a positive association.

4.4 Multiple Regression Analysis

Model 1

This section analyses the impact; the independent variables have over the dependent variable.

Table 4.3

Dependent Variable: ROA
Method: Least Squares
Date: 03/31/24 Time: 21:27
Sample: 1 50
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.076940	0.024943	3.084605	0.0034
DTE	-0.006954	0.001515	-4.589767	0.0000
LTD	0.065020	0.017884	3.635656	0.0007
ACIND	-0.015017	0.033981	-0.441913	0.6606

R-squared	0.520194	Mean dependent var	0.028969
Adjusted R-squared	0.488902	S.D. dependent var	0.026513
S.E. of regression	0.018954	Akaike info criterion	-5.016943
Sum squared resid	0.016526	Schwarz criterion	-4.863981
Log likelihood	129.4236	Hannan-Quinn criter.	-4.958694
F-statistic	16.62401	Durbin-Watson stat	1.163435
Prob(F-statistic)	0.000000		

Source: E-View Output generation

Table 4.3 presents the results of multiple regression analysis for capital structure and financial performance of listed deposit money banks in Nigeria. The output of the regression model unveils that the coefficient of the constant (C) is 0.076940, which implies that if all other variable is held constant all thing being equal, criterion variable is expected to be increased on the average by about 0.07 units. For model fitness, the R squared value is used to establish the level of overall fluctuation the study independent variables (DTE, LTD and ACIND) can collectively cause ROA as the dependent variable to change. The R squared value of 0.520194shows that DTE, LTD and ACIND cause ROA to fluctuate at approximately 52.0194%; this means that 47.9806% fluctuation of the ROA is caused by other factors not considered in this study. The R^2 adjusted value of approximately 0.488902 shows that, there will be a 0.031292 (0.520194 – 0.488902) variation from the sampled result of R square if the other omitted factors are considered will bring about either 3.1292% increase or decrease in the level of fluctuation DTE, LTD and ACIND can cause ROA to change. The F-statistics and its probability show that the regression equation is well-formulated explaining that the relationship between the variables combined is statistically

significant The Fisher statistic reveals a value of 16.62401with a probability value of 0.000000which prove that the overall model is statistically significant.

Test of Hypothesis

H_{01}: Capital Structure has no significant effect on Return on Assets of listed Deposit Money Banks in Nigeria.

The t-statistics value of debt to equity and long term debt is 4.589767 and 3.635656with the probability values of 0.0000 and 0.0007 respectively; debt to equity (DTE) is statistically significant at 5% level though there is negative relationship while long term debt (LTD)also is statistically significantat 5% level and has a positive relationship. Generally, the F-statistics has a Probability value of 0.000000 this indicates that null hypothesis should be rejected while the alternate hypothesis accepted and concludes that Capital Structure has a significant effect on Return on Assets of listed Deposit Money Banks in Nigeria.

Model 11

Moderating effect of audit committee independence on the relationship between capital structure and financial performance of listed deposit money banks in Nigeria.

Table 4.4

Dependent Variable: ROA
Method: Least Squares
Date: 03/31/24 Time: 21:40
Sample: 1 50
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.062927	0.010125	6.215189	0.0000
DTE	-0.000883	0.001738	-0.507977	0.6140
LTD	-0.290427	0.075815	-3.830727	0.0004
DTE_ACIND	-0.010300	0.003507	-2.937334	0.0052
LTD_ACIND	0.697793	0.147637	4.726392	0.0000

R-squared	0.690291	Mean dependent var	0.028969
Adjusted R-squared	0.662761	S.D. dependent var	0.026513
S.E. of regression	0.015397	Akaike info criterion	-5.414692
Sum squared resid	0.010668	Schwarz criterion	-5.223490
Log likelihood	140.3673	Hannan-Quinn criter.	-5.341881
F-statistic	25.07441	Durbin-Watson stat	0.726330
Prob(F-statistic)	0.000000		

Source: E-View Output generation

Table 4.4 shows the moderating effect of audit committee independence on the relationship between capital structure and financial performance of listed deposit money banks in Nigeria. The inclusion of the interaction effect in the model has significantly increased the model variables' overall impact to 69.0291% (R-Squared = 0.690291). The R-Squared change in the model is 0.170097 (R-Squared in model 2 – R-Squared in model 1= 0.690291- 0.520194). This result indicates that audit committee independence has significantly contributed to a 17% increase in strengthening the relationship between capital structure and financial performance. The F-Probability statistics 0f 0.000000 implies that the model is valid for discussion and thus statistically significant.

Similarly, the inclusion of audit committee independence with DTE has a significant moderating effect on financial performance at a 5% level of significance (P value of 0.0052 is less than 5%). However, the interaction effect of audit committee independence with Long term debt (LTD) on financial performance of listed deposit money banks in Nigeria is also statistically significant (P value of 0.0000 is less than 5%). Since the independent variables, DTE and LTD were statistically significant after the moderating term inclusion, it implies that the moderation has occurred and that ACIND can strengthen the relationship between capital structure and financial performance.

Test of Hypothesis

$H_{0\,2}$: Audit committee independence has no significant moderating effect on the relationship between capital structure (Debt to Equity and Long term debt) and Return on Assets of listed deposit money banks in Nigeria.

The result of model 11 after introducing the moderating effect of audit committee independence on the relationship between capital structure and financial performance shows that moderating effect of audit committee independence on the relationship between capital structure and financial performance is significant at F-statistics of 25.07441and probability value of 0.000000which indicate that the relationship is significant at 5% level of significance. This study rejects the null hypothesis while the alternate hypothesis accepted and concludes that audit committee independence has a significant moderating effect on the relationship between capital structure (Debt to Equity and Long term debt) and Return on Assets of listed deposit money banks in Nigeria.

5. SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS

5.1 Findings

The study examined moderating effect of audit committee independence on the relationship between capital structure and financial performance of listed deposit money banks in Nigeria. In light of the test being carried out, the following are the findings to the study:

1. Capital Structure has a significant effect on Return on Assets of listed Deposit Money Banks in Nigeria.
2. Audit committee independence has a significant moderating effect on the relationship between capital structure (Debt to Equity and Long term debt) and Return on Assets of listed deposit money banks in Nigeria.

5.2 Conclusion

The study examined the moderating effect of audit committee independence on the relationship between capital structure and financial performance of listed deposit money banks in Nigeria. As a result of the discussion and analysis the study shows that there is a negative and significant relationship between debt to equity and financial performance and that financial performance reduced as financial leverage increases. It therefore implies that one unit increase in DTE tends to decrease the return on assets and vice versa. Various popular studies such as Manawaduge, A., Zoysa, A. D., Chowdhury, K., &Chandarakumara, A. (2011) supports this negative relationship.

While Long term debt (LTD) has a positive and significant effect on Return on Assets of listed deposit money banks in Nigeria. The study therefore concludes that LTD have effect on the financial performance of listed deposit money banks in Nigeria.

Furthermore, Audit committee independencesignificantly moderated the relationship between capital structure and financial performance, the study therefore concludes that Audit committee independence have a significant moderating effect on the relationship between capital structure (Debt to Equity and Long term debt) and Return on Assets of listed deposit money banks in Nigeria.

5.3 Recommendations

The following recommendations are made which are consistent with the findings and the conclusion of the study:

1. The study recommends that in order to improve performance, corporate managers are advised to reduce financial leverage. This offers substantial evidence that using debt capital as opposed to equity capital has a detrimental impact on the performance of listed deposit money banks in Nigeria.
2. The Board of Directors of listed deposit money banks in Nigeria should includefinancially literate non-executive members in the audit committee who have specific industrial experience and financial knowledge to make optimal capital structure decisions that will improve the firm's financial performance
3. Given that many businesses rely on external borrowing to finance their cash requirements, this study also recommends that the government should control the banking sector through various monetary policies in order to lower borrowing costs
4. Regulatory authorities such as Financial Reporting Council of Nigeria (FRCN), Corporate Affairs Commission (CAC) and Security and Exchange Commission (SEC) should ensure strict adherence to code of corporate governance by listed deposit money banks in Nigeria so that the various stakeholders' interest would be protected fully.
5. Regulatory authorities such as FRCN, CAC and SEC should spell out clearly the structure of members' in the audit committee so as to make them perform their duties effectively, emphasis should be towards having independent members with specific industrial experience and financial knowledge.

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