

Moderating Effect of Audit Committee Independence on the Relationship Between Risk Management Practices and Financial Stability of Listed Deposit Money Banks in Nigeria

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ABSTRACT: The study examined the moderating effect of audit committee independence on the relationship between risk management practices and financial stability of listed deposit money banks in Nigeria. Employing an ex post facto research design, the study focuses on the 13 quoted deposit money banks operating in Nigeria, utilizing panel data from 2015 to 2024. Data analysis was conducted using the Generalized Method of Moments (GMM) estimation technique to account for potential endogeneity and dynamic effects. Dynamic panel results show that lagged financial stability positively influences current stability, suggesting performance persistence. Audit committee independence moderates the relationship between specific risk management practices and financial stability: it strengthens operational risk management and mitigates excessive market risk exposure, while its effect on liquidity and credit risk management is less pronounced. The findings showed the importance of strong governance structures in enhancing the effectiveness of risk management practices, thereby promoting financial resilience. Practically, the study highlights the need for banks to ensure genuinely independent audit committees, robust risk monitoring systems, and continuous capacity building to maintain stability in a volatile economic environment. Theoretically, the study extends the financial intermediation and credit risk frameworks by incorporating internal governance as a moderating factor. The study contributes to banking literature by providing empirical evidence from Nigeria, emphasizing the interplay between risk management and governance in maintaining financial stability.

KEYWORDS: Financial stability, Risk management practices, Audit committee independence.

INTRODUCTION

The banking sector remains central to Nigeria's economic structure, mobilizing deposits, extending credit, and supporting economic growth through financial intermediation. Recent regulatory reforms have reshaped the risk landscape for deposit money banks (DMBs). In particular, in 2024 the Central Bank of Nigeria (CBN) recapitalisation directive and related supervisory measures triggered a wave of capital-raising across the industry. By the end of 2024, the banking system's Capital Adequacy Ratio (CAR) improved to 15.20 percent, up from 12.52 percent in the preceding quarter, signalling stronger buffer capacity for banks. The industry's liquidity ratio also rose, reaching 49.06 percent well above regulatory minima indicating enhanced short-term resilience of the banking system (CBN, 2025).

Despite these improvements, signs of stress have surfaced. In April 2025, the non-performing loan (NPL) ratio of some banks increased to 5.62 percent, breaching the prudential threshold of 5 percent, as a result of loan reclassifications during annual risk-assessment exercises (CBN, 2025). This underscores that capital buffers and liquidity alone may not guarantee long-term stability if risk exposures especially credit risk are not properly managed. In effect, improved CAR and liquidity provide only partial protection; persistent vulnerabilities arising from weak credit appraisal, poor market risk hedging, or inadequate operational controls remain real threats.

Despite these improvements, vulnerabilities persist, particularly in asset quality. In 2025, the non-performing loan (NPL) ratio of some banks increased to 5.62%, exceeding the prudential threshold of 5% (Modu, et al., 2024). This increase highlights persistent credit-quality challenges and illustrates that strong capital and liquidity positions alone do not guarantee long-term financial stability (Natufe et al., 2023). Banks continue to face operational, market, liquidity, and credit risks, which, if poorly managed, can compromise financial stability and systemic resilience (Okoro, et al., 2023; Owolabi & Ajayi, 2021).

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Empirical research in Nigeria has often examined individual risk categories in isolation or relied on pre-recapitalisation datasets (Aruwa & Musa, 2014; Onyabe et al., 2018; Ogege & Shiro, 2013). While informative, these studies do not capture the integrated effects of multiple risk management practices on financial stability under the contemporary regulatory and macroeconomic environment. Similarly, although corporate governance mechanisms, such as audit committees, are acknowledged to enhance bank performance, limited evidence exists on how audit committee independence moderates the effectiveness of risk management practices (Fadun & Silwimba, 2023; Obayagbona & Osagiende, 2023).

These gaps revealed the need for a contemporary, comprehensive study that investigates how credit, market, liquidity, and operational risk management practices affect the financial stability of listed deposit money banks and whether audit committee independence strengthens or weakens these relationships.

Hypotheses

H₀₁: Audit committee independence does not significantly moderate the relationship between credit risk management and financial stability of listed deposit money banks in Nigeria.

H₀₂: Audit committee independence does not significantly moderate the relationship between market risk management and financial stability of listed deposit money banks in Nigeria.

H₀₃: Audit committee independence does not significantly moderate the relationship between operational risk management and financial stability of listed deposit money banks in Nigeria.

H₀₄: Audit committee independence does not significantly moderate the relationship between liquidity risk management and financial stability of listed deposit money banks in Nigeria.

LITERATURE REVIEW

Concept of Financial Stability

Angineret al. (2018) define financial stability as the absence of systemic risk and financial distress within the banking sector, allowing institutions to operate efficiently in providing credit and liquidity to the economy. Their empirical analysis suggests that diversification and capital regulation significantly improve stability. Arner et al. (2020) offer a contemporary view, stating that financial stability involves digital transformation, cyber-risk management, and adaptability to fintech innovations while maintaining traditional financial resilience measures. Their study suggests that the rise of digital banking and financial technology (fintech) requires new approaches to risk governance and regulation to ensure long-term stability.

Concept of Risk Management Practices

Risk management is an important aspect among financial institutions as it is the factor that informs financial decisions (Shukla, 2016). Without risks, financial transactions would be simplified but this would also imply low returns on investments as higher risk is associated with better proceeds. Financial institutions are however mandated to control risks as failure to monitor them would lead to collapse of the institutions and this would have a multiplying effect on the entire economy. Risk management refers to the process of providing information about the risks faced by an entity in its financial statements and other relevant reports (Eshiet, et al., 2023). Banks are exposed to a wide range of risks, including credit risk, market risk, liquidity risk, and operational risk.

Credit Risk Management

Credit risk refers to the risk of financial loss to an entity if a counterparty fails to fulfill its contractual obligations. Credit risk cannot be totally avoided as it impacts the fundamental activities of banks which is the loans availed to customers and banks are formulating credit policies to manage risk to improve asset quality through borrowers guarantees and collateral request (Al Zaidanin & Al Zaidanin, 2021).

Liquidity Risk Management

Liquidity risk refers to the risk that an entity may encounter difficulties in meeting its financial obligations as they fall due. Liquidity refers to a company's ability, in this case, a DT-SACCO, to pay its debts that are accrued in a year by using cash and quickly convertible short-lived assets into cash. Therefore, it happens in the event of the capacity to satisfy debt obligations to creditors without liquidating their other assets (Adam & Buckle, 2013). Insufficient liquid assets, as per Liargovas and Skandalis (2008), make it difficult for businesses to finance their operations and make investments.

Market Risk Management

According to IFRS 7, market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. According to Hull (2018), other market risk includes risks related to equity prices, commodity prices, and

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other factors that can influence the value of financial instruments. Market risk is the risk that is intrinsic to a whole market or portion of the market, (Lelgo & Obwogi, 2018).

Operational Risk management

Operational risk refers to the potential for loss resulting from inadequate or failed internal processes, people, systems, or external events. Operational risk enhances transparency and accountability by providing stakeholders with insights into the internal challenges and vulnerabilities of a firm. It holds management accountable for managing these risks effectively and signals to investors that the company is proactive in addressing operational challenges (Wang & Gao, 2020).

Concept of Audit Committee Independence

Audit independence refers to the impartiality and objectivity of auditors in conducting their examinations of financial statements and related information. An audit committee's Independence is achieved when the members' monitoring mechanism is not interfered with by third parties (Al Farooque, et al., 2019). Audit committee members should be allowed to carry out their monitoring role without interference from the managers and auditors (Eyenubo, et al., 2017). Members of the audit committee should have ample time to carry out meetings and strengthen their internal control. They should not have other duties that may disrupt them or even interfere with their time to be readily available to attend audit team meetings (Ajili, & Bouri, 2018). The more frequent meeting may help the audit committee improve the quality of financial reports and enhance the level of disclosure (Al-Okaily, & Naueihed, 2019).

EMPIRICAL REVIEW

Seun (2024) evaluated the effect of credit risk management on financial stability of banks in the United Kingdom. The model used for the research proxied credit risk management as total risk assets to total assets ratio (TRAR), total loans to total deposits ratio (TLTDR), non-performing loan ratio (NPLR) and loan cover ratio (LC). Financial stability was measured by liquidity coverage ratio (LCR), leverage ratio (LR), capital adequacy ratio (CAR) and return on assets before tax (ROABT) and the study collected data from top (5) banks in the United Kingdom. The secondary data required were extracted from the audited financial statements of selected UK banks from 2016 to 2021 and the data was analysed using regression technique through SPSS version 28. The research concluded that there exists significant positive effect between credit risk management and financial stability of sampled UK banks for the sampled period since the result of the regression analysis revealed that the probability of F-statistic value of 3.427 with p-value of 0.023 is below significance level of 5%. The study therefore recommends that credit risk management (CRM) proxied by total risk assets to total assets ratio (TRAR), total loans to total deposits ratio (TLTDR), non-performing loans to gross loan ratio (NPLR) as a measure of asset quality and loan cover ratio (LC) have a joint significant effect on financial stability of UK banks.

Ahmed and Hossain (2022) investigated the impact of market risk management on the financial stability of firms in the emerging markets. They aimed to understand whether enhanced risk management affects the stock market performance of companies. The study analyzed data from 2016 to 2021. The study used a quantitative approach with panel data regression analysis. Data were collected from financial statements and stock prices of 150 firms across various emerging markets. The analysis focused on the correlation between the quality of market risk management and stock market performance. The results indicated a positive relationship between detailed market risk management and financial stability. Firms with comprehensive risk managements tended to have higher stock prices and better market valuation. While the study provides valuable insights into emerging markets, its focus on a broad range of countries may obscure specific regional differences. Additionally, the study could benefit from a more granular analysis of industry-specific effects.

Wang and Lee (2023) investigated the impact of operational risk management on financial stability in the technology sector. They aimed to determine if enhanced disclosure practices affect stock market performance. The study analyzed data from 2018 to 2022. The methodology involved a quantitative approach with panel data regression analysis. Data were collected from 120 technology firms, focusing on their operational risk managements and stock market performance. The results indicated a positive correlation between detailed operational risk management and financial stability. Firms with comprehensive risk information had higher stock prices and better market valuations. While the study provides valuable insights into the technology sector, its focus on a single sector may limit generalizability. Including firms from other industries could offer a more comprehensive view of disclosure impacts.

Brown and Lee (2023) investigated the effect of liquidity risk management on financial stability in the banking sector, aiming to determine if enhanced transparency influences market valuations. The research covered the years 2020 to 2023. Quantitative analysis was performed using regression models with data on liquidity risk managements and stock prices from 90 banking firms. The findings indicated a significant positive relationship between liquidity risk management and financial stability, with banks

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having higher-quality disclosures showing better market valuations. The focus on the banking sector provides specific insights but may not generalize to other industries. Including a variety of sectors could enhance the generalizability of the findings.

THEORETICAL FRAMEWORK

Financial Intermediation Theory: Diamond (1984) proposed the Financial Intermediation Theory, which explains how banks reduce information asymmetry between borrowers and lenders, facilitating credit assessment and resource allocation. Modern perspectives emphasize that financial intermediation arises from economic imperfections and the intermediaries' role in lowering transaction and information costs (Jappelli & Pagano, 2006; Tripe, 2003). Banks channel funds from surplus to deficit units while performing maturity, liquidity, and risk transformation, critical for macroeconomic stability and growth. However, banks inherently assume financial risks, including credit, liquidity, operational, and market risks, which, if poorly managed, can threaten their stability.

In Nigeria, volatile macroeconomic conditions and regulatory challenges make effective risk management essential for solvency and continued intermediation. While the theory highlights risk management, it has been critiqued for insufficiently recognizing the role of lenders and credit risk in financial decision-making (Levine et al., 2000; Scholtens & Van Wensveen, 2000). Empirical evidence shows that strong internal controls and governance mechanisms improve banks' resilience to financial shocks (Naceur, Cherif, & Kandil, 2020; Barth, Caprio, & Levine, 2022; Olayemi & Aladejana, 2023). The theory also applies to institutions like DT-SACCOs, where technological innovations in credit collection, screening, and monitoring reduce transaction costs and enhance performance (Jappelli & Pagano, 2006). Financial Intermediation Theory provides a useful framework to understand the relationship between risk management practices and financial performance.

Liquidity Preference Theory: The Liquidity Preference Theory, proposed by Keynes (1936), explains how interest rates are determined by the supply and demand for money and emphasizes economic agents' preference for liquidity due to transactions, precautionary, and speculative motives (Nikolaou, 2009; Edward & Turnbull, 2013; Moti et al., 2012). In banking, this theory highlights the need for balancing liquid assets to meet short-term obligations while investing in higher-yield, less liquid assets. Nigerian banks operate in a volatile environment with inflation, currency depreciation, and regulatory changes, making effective liquidity risk management critical for financial stability (Olokoyo, et al., 2022; Adedoyin & Abiodun, 2021).

Poor liquidity management increases solvency risks and undermines banks' intermediation roles, potentially destabilizing the financial system. Audit committee independence can moderate this relationship by ensuring liquidity policies, buffers, and internal controls are rigorously implemented. Criticisms of the theory include its assumptions of constant employment, fixed income levels, and disregard for variable interest rates and savings behaviour (Horne, 2012). Nonetheless, the theory provides a foundation for understanding how liquidity preference behaviour affects investment decisions and bank profitability, reinforcing the importance of liquidity risk management in maintaining financial stability in the Nigerian banking sector.

Credit Risk Theory: The Credit Risk Theory, also known as Credit Risk Modeling Theory, provides a framework for understanding how banks assess and mitigate the risk of borrower default (Merton, 1974; Hull, Nelken, & White, 2005). It posits that credit risk arises from borrower behaviour, macroeconomic conditions, and institutional factors, emphasizing the need to identify, measure, monitor, and control exposures to maintain financial stability (Louzis et al., 2012). In practice, the theory underpins internal rating-based approaches, credit scoring, probability of default, and capital adequacy frameworks like Basel II and III. For Nigerian deposit money banks, effective credit risk management is essential due to economic volatility, oil price fluctuations, inflation, exchange rate shocks, and political instability, all of which heighten default risk (Inekwe, et al., 2021).

Audit committee independence can strengthen credit risk oversight by enforcing policies, monitoring non-performing loans, and ensuring prudent provisioning, enhancing bank solvency (Onyali & Uchenna, 2022). The theory also highlights the importance of collateral, guarantees, and credit appraisal systems to mitigate lender risk (Merton, 1973). Overall, Credit Risk Theory provides a theoretical basis for analyzing the impact of credit risk management on financial stability, supporting the study's focus on governance and institutional oversight in maintaining resilient banking operations.

METHODOLOGY

The study adopted an ex post facto design to examine the moderating effect of audit committee independence on the relationship between risk management practices and financial stability of all 13 quoted deposit money banks in Nigeria. Secondary data was exclusively employed for data collection, using the Generalized Method of Moments (GMM) for data analysis.

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Model Specification

$$FSB_{it} = \beta_0 + \beta_1 FSB_{it-1} + \beta_2 AUCIN_{it} + \beta_3 CRISKD_{it} * AUCIN_{it} + \beta_4 MRISKD_{it} * AUCIN_{it} + \beta_5 OPRISKD_{it} * AUCIN_{it} + \beta_6 LQRISKD_{it} * AUCIN_{it} + \varepsilon_{it} \dots\dots\dots 1$$

Table 3.1 Definition of variables

Symbol	Definition	Measurement	Sources
FSB	Financial stability	$Z = \frac{ROA + CAR}{\sigma ROA}$	Beck, Demircug-Kunt & Levine, (2007); Demircug-Kunt, Detragiache& Tressel, (2008); IMF (2014); Rahman (2014); Laeven& Levine (2009); Pathan (2009); Rachdi& Ameer (2011); World Bank, (2015)
CRISKD	Credit Risk management	Credit risk management disclosed index	Arora, Saggar and Singh (2021) Kwashie et al., (2021) Beasley et al., (2005)
MRISKD	Market Risk management	Market risk management disclosed index	Raithatha (2021)
OPRISKD	Operational Risk management	Operational Risk management index	Based on Linsley and Shrives (2006)
LQRISKD	Liquidity Risk management	Liquidity risk management index	Musneh, et al. (2021) Arora, Saggar and Singh (2021) Beasley et al., (2005)
AUCIN	Audit Committee Independence	Ratio of number of non-executive members to total number of audit committee	Madrigal et al (2015)

Source: Researcher Compilation, 2025

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Descriptive Statistics

	Mean	Maxi	Mini	Std.Dev.	Skew	Kurt	Obs
FSB	2.343254	5.100000	1.056395	0.670746	1.340447	5.263519	130
CRISKD	4.376923	5.000000	3.000000	0.638134	-0.51993	2.344844	130
LQRISKD	5.838462	6.000000	5.000000	0.369451	-1.83933	4.383137	130
MRISKD	5.476923	6.000000	3.000000	0.882345	-1.56101	4.293032	130
OPRISKD	4.930769	6.000000	4.000000	0.612385	0.036957	2.661175	130
AUCIN	0.490165	0.625000	0.125000	0.077158	-2.04502	10.14410	130

Source: Eviews Output 2025

The descriptive statistics in Table 1 provide an overview of the distribution and central tendencies of the key variables in the study. The mean financial stability (FSB) of listed deposit money banks is 2.343, with a standard deviation of 0.671, indicating moderate variation across banks, while the positive skew (1.340) and high kurtosis (5.264) suggest a distribution with a longer right tail and peakedness, implying that a few banks exhibit higher stability levels compared to the majority. Credit risk management (CRISKD) has a mean of 4.377, a slightly negative skew (-0.520), and moderate kurtosis (2.345), indicating a relatively symmetric distribution with moderate variability in how banks manage credit risk. Liquidity risk management (LQRISKD) shows a high mean of 5.838, low standard deviation (0.369), and a strong negative skew (-1.839), suggesting that most banks effectively manage liquidity with a concentration toward higher scores. Market risk management (MRISKD) has a mean of 5.477, low skew (-1.561), and high kurtosis (4.293), reflecting that banks generally perform well in mitigating market risks, though some variation exists.

Operational risk management (OPRISKD) records a mean of 4.931, near-zero skew (0.037), and kurtosis of 2.661, indicating a fairly symmetric distribution with moderate concentration around the mean. Audit committee independence (AUCIN) shows a mean of 0.490, negative skew (-2.045), and very high kurtosis (10.144), highlighting that most banks have relatively high levels of audit committee independence, though a few significantly differ from the majority. These descriptive insights suggest notable variations

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in risk management practices and governance structures, which can have important implications for financial stability outcomes in Nigerian banks.

Correlation Matrix

Table 2: Correlation Results

Correlation Probability	FSB	CRISKD	LQRISKD	MRISKD	OPRISKD
CRISKD	0.025009 0.7776				
LQRISKD	0.070429 0.4259	-0.101425 0.2509			
MRISKD	0.271421 0.0018	0.242734 0.0054	0.357069 0.0000		
OPRISKD	0.604462 0.0000	0.047456 0.5918	0.635453 0.0000	0.563709 0.0000	
AUCIN	0.068909 0.4360	-0.018590 0.8337	0.119947 0.1740	0.054793 0.5358	0.185476 0.0346

Source: EvIEWS Output 2025

The correlation results in Table 2 provide insights into the linear relationships among financial stability (FSB), risk management practices, and audit committee independence (AUCIN) in listed deposit money banks. Financial stability exhibits a strong positive correlation with operational risk management (OPRISKD = 0.604, $p < 0.001$), suggesting that effective operational risk practices are closely associated with higher bank stability. Market risk management (MRISKD) also shows a moderate positive correlation with FSB ($r = 0.271$, $p = 0.002$), indicating that banks' management of market risks contributes positively to their stability. In contrast, credit risk management (CRISKD) and liquidity risk management (LQRISKD) show weak positive correlations with FSB ($r = 0.025$, $p = 0.778$; $r = 0.070$, $p = 0.426$, respectively), suggesting minimal linear association in this sample.

Among the risk management variables themselves, significant positive correlations exist, particularly between LQRISKD and MRISKD ($r = 0.357$, $p < 0.001$), OPRISKD and LQRISKD ($r = 0.635$, $p < 0.001$), and OPRISKD and MRISKD ($r = 0.564$, $p < 0.001$), highlighting interdependence among different risk management practices. Audit committee independence (AUCIN) demonstrates a weak and mostly non-significant correlation with FSB ($r = 0.069$, $p = 0.436$), though it is positively associated with operational risk management ($r = 0.185$, $p = 0.035$), suggesting limited but notable oversight influence. Overall, these correlations indicate that operational and market risk management are more directly linked to bank stability, whereas liquidity and credit risk show weaker associations, and audit committee independence may play a supporting role in enhancing operational risk outcomes. These findings underscore the need for integrated risk management strategies to strengthen financial stability.

Multicollinearity Test

Table 3: Variance Inflation Factors

Variable	Coefficient Variance	Centered VIF
CRISKD	0.004524	1.110666
LQRISKD	0.021037	1.731091
MRISKD	0.003370	1.581773
OPRISKD	0.009720	2.197607
AUCIN	0.289684	1.039692

Source: EvIEWS Output 2025

The Variance Inflation Factor (VIF) results in Table 3 indicate that multicollinearity among the independent variables in the study is not a concern. All VIF values are well below the commonly accepted threshold of 10, with CRISKD at 1.111, LQRISKD at 1.731, MRISKD at 1.582, OPRISKD at 2.198, and AUCIN at 1.040, suggesting minimal correlation among predictors. This implies that each risk management variable and audit committee independence contribute uniquely to explaining variations in financial stability (FSB) without inflating standard errors or biasing coefficient estimates. Low VIF values support the reliability of subsequent

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regression analyses and confirm that the model does not suffer from multicollinearity-related distortions, allowing for accurate interpretation of the individual effects of credit, liquidity, market, and operational risk management on financial stability variables.

Table 4 Heteroskedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.591699	Prob. F(4,125)	0.0508
Obs*R-squared	2.415727	Prob. Chi-Square(4)	0.0527
Scaled explained SS	3.469126	Prob. Chi-Square(4)	0.0158

Source: Eviews Output 2025

The Breusch-Pagan-Godfrey heteroskedasticity test results in Table 4 assess whether the variance of the error terms in the regression model is constant (homoskedastic) or varies across observations (heteroskedastic). The null hypothesis assumes homoskedasticity. The F-statistic value of 0.592 with a p-value of 0.051 suggests marginal evidence against the null at the 5% significance level, while the Obs*R-squared statistic of 2.416 ($p = 0.053$) also indicates borderline significance. The Scaled Explained SS shows a value of 3.469 with a p-value of 0.016, providing stronger evidence of heteroskedasticity. Overall, these results suggest that there is some indication of heteroskedasticity in the model, implying that the variance of errors may not be completely constant. This highlights the need for robust standard errors or other corrective measures in the regression analysis to ensure valid inference and reliable statistical conclusions. Correcting for heteroskedasticity is important to avoid bias in standard errors, t-values, and confidence intervals for the estimated coefficients (Hair et al., 2019).

Table 5: Dynamic Panel-Results

Variable	Coefficient	Std. Error	z-value	P> z
L.FSB	0.2164	0.1090	1.99	0.047
AUCIN	27.0341	20.0424	1.35	0.177
CRISKDAUCIN	1.4294	1.2028	1.19	0.235
MRISKDAUCIN	-4.3171	1.9054	-2.27	0.023
OPRISKDAUCIN	7.1067	3.0106	2.36	0.018
LQRISKDAUCIN	-7.2346	3.8468	-1.88	0.060

Source: Eviews Output 2025

Table 5 presents the dynamic panel regression results assessing the moderating effect of audit committee independence (AUCIN) on the relationship between risk management practices and financial stability (FSB) of listed deposit money banks in Nigeria. The lagged dependent variable (L.FSB) has a coefficient of 0.2164 and is statistically significant at the 5% level ($p = 0.047$), indicating that past financial stability positively influences current stability, consistent with performance persistence in banks (Modu, Umar & Aliyu, 2024). The direct effect of audit committee independence (AUCIN) on financial stability is positive (27.0341) but not statistically significant ($p = 0.177$), suggesting that while greater independence may enhance oversight, its standalone impact on stability is limited. The interaction terms reveal differential moderating effects: credit risk management moderated by audit committee independence (CRISKDAUCIN) shows a positive coefficient (1.4294) but is not significant ($p = 0.235$), indicating weak moderating influence. Market risk management moderated by AUCIN (MRISKDAUCIN) is negative and significant (-4.3171 , $p = 0.023$), suggesting that independent audit oversight may restrain aggressive market risk practices, reducing risk exposure-related instability. Operational risk management moderated by AUCIN (OPRISKDAUCIN) is positive and significant (7.1067, $p = 0.018$), highlighting that audit committees strengthen operational risk controls, enhancing financial stability. Liquidity risk management moderated by AUCIN (LQRISKDAUCIN) is negative and marginally significant (-7.2346 , $p = 0.060$), implying potential constraints on liquidity risk decisions under audit supervision.

From an accounting perspective, these findings underscore the importance of robust internal controls, transparent reporting, and governance mechanisms in risk disclosure and management (Obayagbona & Osagiende, 2023; Modu et al., 2024). Audit committees provide oversight that ensures accurate risk reporting, adherence to accounting standards, and prudent provisioning for risk exposures, which directly influence the reliability of financial statements. Practically, banks should leverage independent audit committees to monitor operational and market risks, thereby enhancing risk-adjusted performance and stakeholder

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confidence, while ensuring compliance with regulatory reporting requirements (Olalekan & Adeyinka, 2013; Okoro, Rufus & Temitope, 2023). These results reinforce the theoretical assertion that institutional governance mechanisms moderate the effect of risk management practices on financial stability and emphasize the accounting implications for transparent reporting and sustainable banking operations.

CONCLUSION AND RECOMMENDATIONS

The study examined the moderating effect of audit committee independence on the relationship between risk management practices and financial stability of listed deposit money banks in Nigeria. The findings indicate that past financial stability positively influences current stability, highlighting performance persistence in banks. Audit committee independence exerts a differential moderating influence: it strengthens operational risk management, curbs excessive market risk-taking, and marginally affects liquidity risk management, while its direct effect on financial stability is limited. These results confirm that governance mechanisms, particularly independent audit committees, played a crucial role in enhancing the effectiveness of risk management practices. Effective credit, market, operational, and liquidity risk management combined with strong internal oversight contributes to more resilient banks capable of withstanding financial shocks. The study aligns with empirical evidence that robust governance and risk management practices are central to maintaining financial stability in volatile economic environments.

Based on the findings, the following recommendations were proposed that:

1. Banks should ensure that audit committees are genuinely independent and possess the necessary expertise to oversee risk management practices effectively. This can enhance operational risk controls and mitigate excessive market risk exposure.
2. Banks should integrate rigorous credit, market, operational, and liquidity risk monitoring systems, supported by audit committee reviews, to improve financial stability.
3. Accurate risk disclosure and adherence to accounting standards should be prioritized to ensure stakeholders have reliable information for decision-making.
4. Regulatory authorities should encourage and monitor the adoption of best practices in governance and risk oversight, including mandatory reporting on audit committee activities and risk management effectiveness.
5. Banks should invest in training programs for both audit committee members and management staff to stay updated on emerging risk management techniques, financial reporting standards, and governance practices.

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