

## **Firm Trait and Financial Reporting Quality of Quoted Non-Financial Firms in Nigeria**

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### ***Authors' Contributions***

This work was carried out in collaboration among all authors.  
All authors read and approved the final manuscript.

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**Research Article**

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### **ABSTRACT**

The aim of the study was to examine firm traits and financial reporting quality of non-financial quoted firms in the Nigerian Exchange Group. The study asserted that financial report consumers and investors stand to gain greater significance from financial reports of higher quality. Due to the accounting outrages that have ensued in Nigerian and foreign financial institutions over the years, concerns are raised about the quality of financial report. The research design adopted for the study is the discretionary accruals research design approach. The population of this study consists of all quoted non-financial firms on the floor of the Nigerian Exchange Group. There were 151 quoted firms on the Nigerian Exchange Group as at 31<sup>st</sup> December, 2023. Out of those firms, 43 were classified as financial quoted firms while the non-financial were 108. The sample size was 85 firms with readily available annual reports covering the study period (2019-2023) made up the study's sample. Simple random sampling methodology was utilized as the sampling strategy. The panel regression analysis was utilized to regress the extracted data from the annual financial report. It was concluded in the study that firm trait variables and the financial reporting quality, in the panel regression estimate's results showed mixed results. Financial reporting quality was found to be negatively related with audit firm size, although profitability and firm size did not significantly relate with financial reporting quality.

**Keywords:** Firm traits, financial reporting quality, non-financial firms

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## INTRODUCTION

The financial reporting quality (FRQ) is in doubt as certain events in many corporations cast doubt on the reports, making the presenting of financial reports (FRs) by businesses more of a formality. A formal and comprehensive document outlining the financial activities of corporate entities is called a financial report (FR). The financial statement should be transparent if the user can easily understand the information offered and the presentation is not misleading (Adebayo, et. al., 2022; IASB, 2008). The reliable information must always be incorporated in financial reports to help users make decisions. Information that is pertinent, trustworthy, comparable, and easy to understand should be included in the FRs (Kamaruzaman, et. al., 2009). According to Uwhejevwe-Togbolo, et al., (2024), reliability is the degree to which financial data is reasonably free from bias and error and accurately reflects its intended meaning. The FRs comprehensibility, dependability, punctuality, faithfulness, and comparability are all indicators of its quality. These quality metrics assess how valuable and insightful financial reports are for readers. The degree to which users can effectively communicate with the information in financial reports to make decisions is known as understandability (Ogbenjuwa, 2020).

According to Herath and Albarqi (2017), investors and users of financial reports stand to gain greater significance from financial reports of higher quality. Due to the accounting outrages that have ensued in Nigerian and foreign financial institutions over the years, concerns about the quality of FR have been raised (Adebayo, et. al., 2022). According to Biddle et al. (2009), investors lost faith in management and its disclosed financial reports due to the financial fraud committed by well-known companies such as Enron, Worldcom,

Marconi, Parmalat, Oceanic Bank and Cadbury which eventually led to their distress (Wahua, 2017; 2015). According to Chinedu and Chinedu (2018) and Zou & Stan (1998), a firm's internal environment is composed of its managerial and demographic elements, which are considered firm traits. Firm traits (FT) include size, leverage, liquidity, asset growth, sales growth, and turnover, according to Kogan and Tian (2012). Again, Khalil (2011) stated that, these attribute also include board composition, ownership structure, dividend payout, the company's age, access to loans and profitability. In addition, there are a number of firm attributes that vary consistently amongst companies.

Historical studies indicate that companies involved in earnings management tend to be smaller than average for their industry (Shehu et al., 2019), less profitable (Defond & Jiambalvo, 1991), grow at a slower rate, and use more leverage than usual (Catagna & Matoksy, 2008). According to these researches, a firm's operating performance will determine how much profit it makes. Managers typically reduce profit when operating performance is abnormally high. When operational performance is superb, managers typically boost profits; but, if operating performance is not very superb, some businesses may choose to further reduce earnings, a tactic known as the "taking bath" method. Since profit is a major factor in the capacity of the firm to expand, managers must manage their organizations to generate a reasonable profit.

Numerous investigation have been carried out on firm traits and the financial reporting quality (Uwhejevwe-Togbolo, et al., 2024; Adebayo, et. al., 2022; Agyei-Mensah, 2014; Asegdew, 2016 Hossain et al., 2012) they found a positive, strong, and significant relationship between firm size and the FRQ of listed non-financial firms

(NFFs). While Olowokure et al. (2015) demonstrated that there was no significant relationship between firm size, leverage, and the FRQ. Egbunike and Okerekeoti (2018) found that these firm features were significant. Therefore, the primary objective of study is to investigate how firm traits affect the FRQ for Nigerian quoted non-financial firms. Consequently, it is proposed that the financial reporting quality mentioned NFFs in Nigeria is not significantly influenced by firm profitability, size or audit firm size. This study's motivation was based on several factors. Due to her size, Nigeria has the largest market in Africa. The impact of international financial reporting standards (IFRS) on accounting standards around the globe and the value relevance of the information in the financial statements for different users make the importance of FRQ more evident. Consequently, the results of this study should be especially helpful to regulators who are in charge of enforcing high FRQ when it comes to developing rules and policies that will restrict manipulative accounting.

Despite the fact that firm traits may have some significance in the study, there are some research problems that need to be addressed. Thus, High-quality financial reports will spur expansion and raise the firm's profitability. The accounting profession, shareholders, regulators, and researchers have long been interested in the financial reporting quality. This is because financial reporting has historically served as the main channel for informing external users about financial reports. As such, in an attempt to monitor management's actions and assist decision-making, users of financial reporting evaluate the financial performance (FP) and state of a firm themselves. A key trait of a firm is profit, which indicates that the firm is operating profitably. Nonetheless, some firms do

report profits even when their industry is not doing well. These firms typically work with auditors to create financial reports that demonstrate profitable growth and success for their investors. Once more, the size of the audit firm has a significant impact on the FRQ because most firms that utilize small audit firm have control over the firm, unlike large firms whose reputation and integrity are at risk if they generate false financial reports. These problems are highly relevant to the expansion of businesses, particularly in light of the perception held by Nigerian non-financial firms as suppliers of goods and services that facilitate cross-border trade with surrounding nations. Without a doubt, this study offered a growing economy perspective on the standards of FR and the relationships between the traits of firms and the FRQ.

The broad objective of this study is to assess the impact of firm traits and financial reporting quality (FRQ) on non-quoted financial firms (NFF) in Nigeria with specific focus on: the relationship between profitability on FRQ of NFFs in Nigeria; the relationship between firm sizes on FRQ of NFFs in Nigeria; and the relationship between audit firm sizes on FRQ of NFFs in Nigeria.

## CONCEPTUAL CLARIFICATION

### Firm Traits

Firms' traits are those that are mostly within the management's control. Sales growth, liquidity, leverage, firm size and firm age are among the attributes of the firm. Conversely, the variables that are outside of management's control are known as macroeconomic indicators (Uwhejevwe-Togbolo, et. al., 2024). Again, Uwhejevwe-Togbolo, et. al., (2024), these variables comprises the GDP, interest rate, and industrial size. This implies that the key factors influencing the profitability of

manufacturing enterprises could be firm-precise characteristics (internal attributes) and macroeconomic variables (external attributes) (Dioha, et al., 2018). However, it is argued by some researchers, that the relationship between profit and the FRQ is said to be predisposed by a number of firm traits, comprising turnover, asset growth, firm size, liquidity, sales growth, profitability, leverage, board structure and composition, age of the company, and dividend payout and growth prospects (Mutende, et al. 2017).

Vogt (1997) contends that a firm's financial performance increases with its level of profit because it makes more capital investments. Smaller businesses strive for rapid expansion, making the most of all possible profits in an attempt to get better their financial performance. Thus, small and medium-sized businesses, which are often in the growth stage of their business, have a larger correlation between profit and investment. Conversely, Adelegan (2009) observes that the impact of size is insignificant and that larger firms often use internal money more than small and medium-sized firms do to finance their corporate initiatives. It takes time for new businesses to adjust to their surroundings. In order for a new firm to remain competitive in the market, it must overtake an established one when the latter's performance is inferior. Because of their superior financial reporting, it is therefore anticipated that older businesses will have faster productivity growth rates than younger ones, especially if they have maintained quality financial reporting over the years (Brouwe, et. al., 2005).

### **Financial Reporting Quality (FRQ)**

The process of producing financial reports that are fair and transparent with regard to details about the performance and financial conditions of the company is

known as the financial reporting quality (Tang, et. al., 2018; Putri & Indriani, 2019). For financial report to be of high quality and guarantee that market players have all the information they need to make knowledgeable credit decisions, investments, and other matters, enterprises must voluntarily broaden the extent and quality of reported information. The financial reporting quality information are essential if made accessible and reachable in the shortest period of time; or otherwise, it loses some of its commercial value, (Uwhejevwe-Togbolo, 2023; Ashibuogwu, 2022).

Researchers, shareholders, regulatory agencies, and the accounting profession itself have expressed interest in the financial reporting quality (Hassan & Bello, 2013). The quality of the data provided in a firm's annual reports and the correctness of the objectives are the fundamental principles that the International Accounting Standard Board (IASB) considers when evaluating the FRQ. A high degree of caliber will also result from these qualitative traits, which also make it simpler to evaluate the value of financial reports. Financial reports have to be accurate, comprehensible, timely, comparative, and verifiable in order to reach this level (Diriyai & Korolo, 2023). This is because financial reporting has always been the main channel for informing external users about financial information, which is then used to assess the financial standing of an organization and economic performance in order to monitor the acts of management and make well-informed decisions.

Consequently, users of financial report are able to assess events and make economic decisions with the use of pertinent financial information provided in the financial report (Uwhejevwe-Togbolo, & Okeke, 2021). Covertly, it is critical to provide high financial reporting quality information since it will benefit other



stakeholders and capital sources when they decide how to allocate credit, investments, and other resources, improving overall efficiency (IASB 2008; Beest, et. al., 2009).

### **Profitability and Financial Reporting Quality**

According to Uwhejevwe-Togbolo, et. al., (2024), profitability is the most important and reliable indicator of a company's ability to grow since it offers a broad significance of the firm's ability to upsurge its revenue. Consequently, maximizing company owner wealth and profitability which in turn suggests improved financial reporting becomes one of the primary purposes of financial management, making profitability one of its most significant objectives (Malik, 2011). Investors, stakeholders, shareholders, and other interested parties to the firm's annual report will undoubtedly learn about the firm's profit situation from the financial report. In another vain, one factor that is thought to have an impact on the FRQ is profitability. The firm's capacity to turn a profit within a specific time frame is explained by profitability (Hermuningsih, 2012). Hassan & Bello (2013) discovered that profitability had a positive and considerable impact on FRQ, contrary to Mahboub (2017) conclusion that profitability had no discernible effect on it. These may arise as a result of firm with greater profits typically disclosing more details to improve their FRQ and set themselves apart from firms with lower performance (Kartorningsih & Daryanto, 2020). The study therefore formulated the following hypothesis, that

**Ho<sub>1</sub>:** *Profitability has no significant relationship with financial reporting quality of non financial firms in Nigeria.*

### **Firm Size and Financial Reporting Quality**

The type of connection that exists between firm size and the financial reporting quality has drawn a lot of attention from scholars and sparked heated discussion. There are several reasons why larger firms produce reporting that is of a higher quality financially. Large firms have greater negotiating leverage over suppliers and clients and are more inclined to utilize economies of scale (Serrasqueiro, & Nunes, 2008). Firm size is a measure that shows if a corporation is categorized as large or small, (Aulia & Agustina, 2015). A company's firm size can determine its classification as large or small, depending on the total amount of assets it owns or the entire amount of revenue it generates. Anthony (2012) stated that assets are monetary resources that fall under the control of an organization and whose fair value, or acquisition cost, can be assessed impartially.

Consequently, the FRQ may be impacted by firm size. A firm's size reveals the amount of wealth (assets) it owns (Susanto & Ramadhani, 2016). While another scholar, discovered that firm size had a positive and significant impact on FRQ (Hassan & Bello (2013). Again, Olowokure, et. al., (2016) observed that firm size has no discernible effect on FRQ. According to these findings, larger firms typically have stronger internal control systems, are able to hire reputable audit firms to provide high-quality audit services, take pride in their standing by delivering high FRQ, and so on (Hassan, et. al., 2013). Hence Uwhejevwe-Togbolo, Okoli, and Ubogu, (2023) asserted that, FRQ, is the auditors' obligation and is achieved by strict adherence to good audit quality norms. The following hypothesis was formulated to guide the study, that

**Ho<sub>2</sub>:** *Firm size has no significant relationship with financial reporting quality of non-financial firms in Nigeria.*

### **Audit Firm Size and Financial Reporting Quality**

Large-firm auditors are able to offer higher-quality audits than small-scale auditors, and they are also able to offer their ongoing concerns. Schauer (2002) looked at the association between audit quality and the size of the auditor firm for a sample of not-for-profit organizations. They used the entity's adherence to GAAP reporting rules as the basis for their audit quality measure. Three types of auditors were established: large non-Big Four (LNBF), small non-Big Four (SNBF), and Big Four (BF). They discovered that when one went from a small non-Big Four to a large non-Big Four and from a LNBF to a BF, compliance rose. Additionally, they examined the association between auditor size and audit quality using a more continuous indicator of audit firm size: the total number of experts on staff. However, Uwehjevwe-Togbolo and Orjinta (2023) contended that audit standards should not be exclusively based on the size of the biggest public accounting firms in order to protect small business owners. Big accounting companies are more prone to discover significant abnormalities in their financial reports, according to the authors.

The size of the audit firm has been found by several scholars to have an impact on the audit quality. According to Khalil (2011), clients of the major BF accounting firms, particularly in the years 2005 and 2006, cited material and systematic problems much less frequently than clients of NBF accounting firms. DeAngelo (1981) and Carlin, et. al., (2009) contend that large accounting firms have greater brand equity and prioritize brand protection in addition to

their technical and processing expertise. They can handle client pressure if they have a large clientele.

Hussein & Hanefah, (2013) asserted that, largest accounting firm size has greatest impact on an auditor's independence; other significant factors include audit tenure, competitiveness, audit committee, companies that provide management consulting services, and fee amounts. Large audit firms' systems surely have some elements, like professional proficiency, the auditor's qualification, and accompanying practical data. These variables may be considered while assessing how the size of the audit company affects audit quality reports in order to make it easier to find potential problems (Hussein & Hanefah, 2013). The following hypothesis was formulated to guide the study, that

**Ho<sub>3</sub>:** *Audit firm size has no significant relationship with financial reporting quality of non financial firms in Nigeria.*

### **THEORETICAL FRAMEWORK**

#### **Agency Theory (AGT)**

A corporation's principle and agent are the two parties engaged in the AGT (Jensen & Meckling, 1976). Formally, through an employment contract, the major owner of the company grants the management authority to serve as an agent and provide managerial services. The knowledge imbalance between the principal and the agent in this instance reflects the agency dilemma. Agents can influence the financial reporting process to best serve their interests because they possess more information about the company than the principal. The results of financial reporting are seen as the company's means of communicating with its stakeholders; this is based on the financial policies that

management has set in place. Earnings management is one of the problems that will lower the financial reporting quality. Consequently, Healy and Wahlen (1999) demonstrated that managers falsify financial statements to mislead stakeholders about the firm's financial standing or to sway contractual decisions that depend on publicly available accounting data. This is what they mean when they use considerations in transaction arrangement and financial activity reporting.

Since it is thought that each person is just driven by their own interests, there exists a disagreement of interest between the agent and the principal. Whereas the agent is driven to maximize the fulfillment of his financial and psychological requirements through the acquisition of investments, loans, and compensation contracts, the principal is driven to enhance his wealth through greater profitability. Agency theory refers to conflicts between principals and agents resulting from differences in interest (agency conflicts). The core of agency theory, according to Scott (1997) and Kholmi (2010), is the proper agreement strategy that aligns principal and agent interests in the event that a clash of interest arises. According to agency theory, corporate governance must thus keep an eye on and exert control over management to make sure that they abided by the law. According to agency theory, corporate governance practices have a part in lowering principal-agent agency conflict (Healy & Wahlen, 1999).

### **Resource Based Theory (RBT)**

Wernerfelt (1984) proposed the RBT, which serves as the foundation for this investigation. The RBT is a technique for evaluating and defining a company's strategic advantages by examining the special combination of its organizational

assets, competencies, and intangibles (Pearce & Robinson, 2011). The internal company features and how they impact the company's performance are the focus of this theory. According to Grant (1991), the company is seen as a collection of resources that when put together, can produce organizational skills that allow it to generate profitability that is higher than normal. These tools help any company build competencies, which, when they are strong, provide the company with a competitive edge.

This theory focuses on firm characteristics rather than industry issues; and it helps in explaining why profitability varies throughout enterprises within the same industry. Leverage ratios, which allow the company to borrow from debt providers to improve project finance, are typically used to measure financial resources. A scale known as "firm size" is used to categorize businesses as large or small. A company's firm size can determine its classification as large or small, depending on the total amount of assets it owns or the entire amount of revenue it generates. The reputation of an auditor is impacted by the size of the audit firm since, as previously mentioned, larger audit companies are often thought to be more independent. First, the audit fee from a specific customer makes up a lower portion of the audit firm's overall revenue due to the size of the businesses. Second, larger audit firms typically have multiple divisions to offer the services that their clients require; as a result, the client's auditor and the non-audit service provider would be distinct individuals. In summary, this leads to high-quality financial reporting for the company.

### **EMPIRICAL REVIEW**

It is usually recognised that lots of studies exist on the subject matter with various insights into their findings on firm

traits and financial reporting quality in Nigeria. These mixed results could be attributed as a trait of variance in a countries perception of a particular subject matter. The study will view some survey carried out by scholars to ascertain their consistency in their findings concerning firm characteristics and financial reporting quality of manufacturing firms in Nigeria.

Kenny and Luqman (2019) investigated firm's characteristics effect on financial reporting quality of Nigerian quoted manufacturing companies. Twenty-five (25) non-financial companies from 2009 to 2016 were used as sample. Balanced panel data was extracted via secondary source through the audited reports of the selected companies. Techniques adopted were multiple regression and modified Dechow and Dichev's (2002) model was used to proxy quality of financial reporting. Firm size, profitability, firm tangibility and growth represented firm characteristics. Findings revealed firm size and profitability have significant positive influence on quality of financial reporting, while tangibility and firm growth were documented to have significant but negative influence on quality of financial reporting.

Musa, Idris and Kwakipi (2019) conducted an investigation on the impact of characteristics of firm on quality of financial reporting of quoted industrial goods companies in Nigeria. The findings on leverage is an indication that the listed Industrial goods firms may not be utilizing their debt very effectively and efficiently or it could be that the level of debt in the organisation is not enough to drive financial performance and as such negative effect will be felt. Conclusion is made on firm size that any firm having advantage of a number assets and can judiciously utilize and invest such an asset in a profitable investment is expected to attract more return from

investment which will boost financial performance.

Echobu, Okika and Mailafia (2017) examined the factors responsible for determining financial reporting quality of quoted Natural Resources and Agriculture companies in Nigeria. Population comprised of nine quoted companies which included five agriculture and four natural resources companies. The study employed a sample of seven companies from the targeted population. Secondary source of data was collected from the financial statement of companies and hence covers the period from 2008 to 2015. The findings showed significant positive impact of leverage, board size and liquidity on quality of financial reporting.

Ghareli and Mohammadi (2016) investigated firm characteristics and macro-economic variables influence on financial reporting quality of companies quoted on TSE. Exchange rates, interest rate, inflation rate and GDP represent microeconomic variables used, working capital, financial leverage and size of firm was used as proxy for firm characteristics. Francis, Ryan, Per and Schipper (2005) measured financial reporting quality. 91 firms were used as sample through elimination method out of the population of companies listed on TSE. The study covered the period from 2005 to 2013 and results from multiple linear regressions were used to test the hypotheses. It was found that the macroeconomic variables do not have effect on financial reporting quality. Meanwhile, some specific characteristics of firm had impact on financial reporting quality.

Ishak, Amran and Abdul Manaf (2018) examined the influence of firm characteristics on quality financial reporting. Secondary source of data was obtained from Thompson Database. The sample consists of firms quoted on Bursa Malaysia Main Market covering period from 2012 to 2015.



The results revealed that large firms are practicing earnings management. Contrary, high levered firms are less likely to engage in earnings manipulation.

**METHODOLOGY**

The discretionary accruals research design approach was used in this study. This is because the study's design entails examining the same variables and the features of organizations over an extended period of time. In particular, the study examined the population over a predetermined period of time using a quantitative and comparative technique. Dechow, et. al., (2012) and Uwhejevwe-Togbolo, et. al., (2024) add that managers can frequently manipulate profit as discretionary accruals give the firm flexibility. The annual reports and accounts of non-financial firms quoted on the floor of the Nigerian Exchange Group were used as secondary data in this study from 2019-2023.

**Population, Sampling Technique, and Sampling Size**

The population of this study comprise of all quoted non-financial firms on the floor of the Nigerian Exchange Group (NGX). There were 151 quoted firms on the NGX as at 31<sup>st</sup> December, 2023 (NGX, 2023). 43firms were classified as financial quoted firms while the non-financial were 108; the non-financial firms were used to derive the sample size through the application of Yamane (1967) formula. The statistical formula for calculating sample size is applied to a heterogeneous population, with 5% serving as the acceptable error level.

$$n = N/1+N(e)^2$$

**Where:**

n = Size of Sample  
 N = Study Population  
 E = Confidence or margin of error of Co-efficient

The sample size is determined thus:

$$n = N/1+N(e)^2$$

$$n = 108/1+108(0.05)^2$$

$$n = 108/1+108(0.0025)$$

$$n = 108/1+0.27$$

$$n = 108/1.27$$

$$n = 85 \text{ firms}$$

Thus, 85 firms with readily available annual reports covering the study period (2019-2023) made up the study's sample. Simple random sampling methodology was used as the sampling strategy. Because it had the main advantages that supported its selection for the investigation, the simple random sampling was justified. One of its main advantages is that it typically produces representative samples, meaning that each selection was made independently of the others and that each conceivable pairing of sampling units had an equal and independent chance of being chosen.

**Model Specification**

$$(1) \text{FRQ}_{it} = \beta_0 + \beta_1\text{PROF}_{it} + \beta_2\text{FSIZE}_{it} + \beta_3\text{AUDFS}_{it} + \epsilon_{it}$$

**Where:**

- FRQ = Financial reporting quality
- PROF = Profitability
- FSIZE = Firm Size
- AUDFS = Audit Firm Size
- $\beta_0, \beta_1, \dots, \beta_3$  = Constant term and regression coefficients
- $\epsilon$  = Error term

The apriori expectations:  $\beta_1 < 0, \beta_2 < 0, \beta_3 < 0$ , indicates that we anticipate a negative correlation between earnings management and all of our variables.

## Operationalisation of Variables

### a. **FRQ:** Financial reporting quality

This study uses the cross-sectional variation of the modified Jones model to measure discretionary accruals, which is a proxy for earnings management. The income smoothing model by Kothari (2005) is also employed as an alternate measure for income smoothing. Both measures are selected because they have been used by several studies in measuring earnings management and have been reported as having high explanatory power.

Discretionary accruals have been extensively used as a proxy for earnings management. Dechow, Richardson and Tuna (2003) argue that the modified Jones model has been the most widely used model for the estimation of discretionary accruals. They assert that discretionary accruals clearly displays earnings manipulation and that with earnings being temporarily high, firms with positive discretionary accruals do have lower future earnings and lower future stock returns. Discretionary accruals are obtained as follows:

- i.  $DA = TACC - NDA$
- ii.  $TACC = NDA + DA$

### Where:

- i. TACC is Total accruals

- ii. NDA is Non-discretionary Accruals
- iii. DA is Discretionary accruals

$$(2) TACC_{it} = a(1/ASSETS_{it} - 1) + a_1(\Delta REV_{it} - \Delta REC_{it}) + a_2PPE_{it} + E_{it}$$

### Where

- i. TACC<sub>it</sub> is total accruals in year t for firm i
- ii.  $\Delta REV_{it}$  is revenues in year t less revenues in year t-1 for firm i
- iii.  $\Delta REC_{it}$  is receivables in year t less receivables in year t-1 for firm i
- iv. PPE<sub>it</sub> is gross property, plant and equipment in year t for firm i
- v. E<sub>it</sub> is error term (residuals) in year t for firm i

- b. **PROF:** Profitability (This is measured by return on assets (ROA) of firms. It is measured using the profit after tax divided by the total assets (Spiegel & Yamori, 2003)
- c. **FSIZE:** Firm Size (Proxied by natural logarithm of total assets of firms (Bukh et al., 2005)
- d. **AUDFS:** Audit Firm Size (Audit firm size was measured using a dummy variable of 0 and 1 with 0 representing non big four auditor and 1 representing big four auditor (Defond et al. 2002).

**Descriptive Statistics**

**Table 1:**

*Descriptive statistics results on firm traits and financial reporting quality*

	FRQ (N)	PROF (N)	FSIZE (N)	AUDFS (N)
Mean	-0.067599	0.029128	6.980185	0.488722
Median	-0.066	0.028613	6.910756	0.000000
Maximum	0.537000	0.539594	9.240886	1.000000
Minimum	-0.588	-0.525973	4.758056	0.000000
Std. Dev.	0.134700	0.112512	0.842988	0.500500
Skewness	0.445212	-0.311704	0.141577	0.045124
Kurtosis	6.333706	7.100535	3.105454	1.002036
Jarque-Bera	197.9448	286.0003	1.517817	66.50007
Probability	0.000000	0.000000	0.468177	0.000000
Sum	-26.972	11.62197	2785.094	195.0000
Sum Sq. Dev.	7.221344	5.038257	282.8302	99.69925
Observations	399	399	399	399

Source: Authors (2024)

Table 1 displays the results of the descriptive statistics, which show a mean value of -0.068 for financial reporting quality which was measured using discretionary accruals. The above measurement (N) means Nigerian local currency (the Naira). The minimum value (MIV) is -0.59 and the maximum value (MAV) is 0.54. The results also reveal a MIV of -0.53 and a MAV of 0.54 for profitability while the mean value is 0.03. This is an indication that on the average the

sampled firms are profitable. The MIV for firm size measured using the log of total assets is 6.98. The MIV is 4.76 and the MAV is 9.24. The result is an indication that the sampled firms are relatively large. Lastly the mean value for audit firm size of 0.49 indicates that 49% of the sampled firms are audited by one of the Big Four auditors. The following histogram normality test reveals the normality and additional mean statistics of the regression variables.

**Test of Normality**

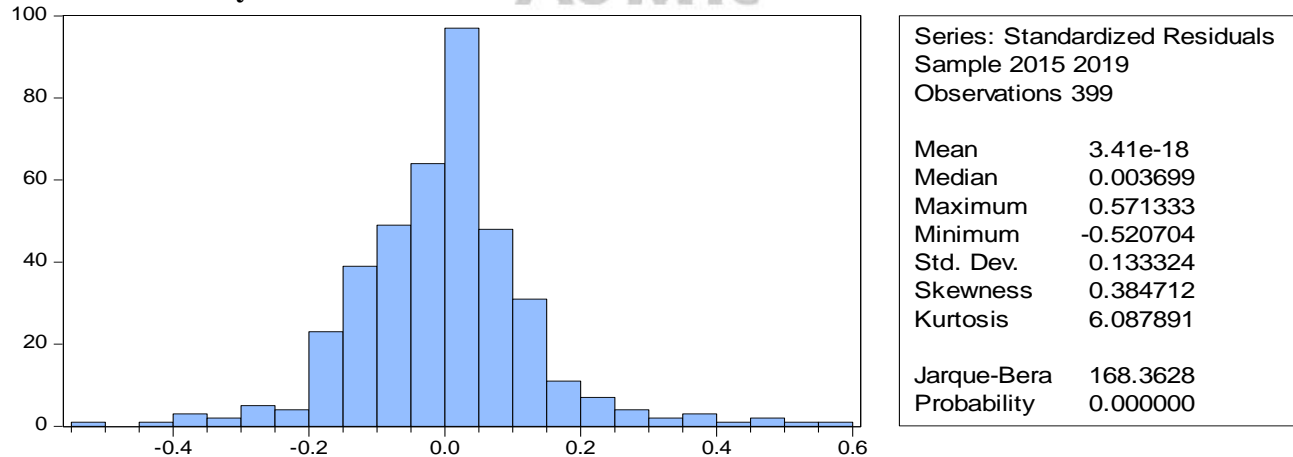


Fig. 1: Histogram normality test. Source: Authors (2024)

The histogram normalcy test result showed a probability value of 0.0000 and a mean Jarque-Bera test of 168.36. The test's outcome points to regression variables with a normal distribution. A leptokurtic kurtosis exceeding the 3.00 benchmark is shown by a positive kurtosis over 3.00, as seen by the mean positive kurtosis of 6.09. According to

the histogram normality test in figure 1 above, regression variables are rightward skewed with a mean positive skewness of -0.38. The regression variables' mean deviation is very minor, as indicated by the average standard deviation of 0.13, indicating the high quality of the data.

**Regression Results and Interpretations**

**Table 2:**  
*Results of the regression analyses*

Variable	Pooled	Random Effect	Fixed Effect
C	0.10 (0.9207)	0.12 (0.91)	0.71(0.48)
PROF	-0.05 (0.96)	-0.06 (0.95)	-1.05 (0.30)
FSIZE	-2.01 (0.04)	-2.15 (0.03)	-1.08 (0.28)
AUDFS	1.43 (0.15)	1.02 (0.31)	-
R-squared	0.02	0.02	0.34
Adjusted R-squared	0.01	0.01	0.14
F-statistic	2.04	2.04	1.68
Prob (F-statistic)	0.09	0.08	0.001
Durbin-Watson Stat	1.78	1.78	2.5
Redundant Fixed Effects Test		157.13	
Hausman		-0.001	
		0.000	
		-1	
Observations	399	399	399

**Source: Authors (2024)**

The results of the pooled, random effect, and fixed effect regression analyses are displayed in table 2 above. We move on to test the fixed and random effects models since the redundant fixed effect result from table 2 (F-statistic value of 157.13 and probability value of 0.0000) indicates that the pooling OLS is insufficient. The random effect model is preferred as indicated by the Hausman test result in Table 2, which has a probability value of 1.00 and a Chi-sq value of 0.00. The equality of coefficients between the random and fixed effect models is the null hypothesis that is accepted by the Hausman test result. The pooled regression result's coefficient of multiple correlation is 0.02, and its adjusted R-square is 0.01. With an adjusted R-square of 0.14, the fixed effects model's coefficient of multiple

correlation is 0.34. The corrected R-square for the random effect model is 0.01 and its coefficient of multiple correlation is 0.02. The independent variables of profitability, business size, and audit firm size account for approximately 1% of the systematic cross-sectional variance of the dependent variable of financial reporting quality, as indicated by the corrected R-square value of 0.01. A substantial linear relationship between the dependent variable and the independent variables is evident from the random effect model's F-statistic value of 2.04 and significant probability value of 0.08. This approach is supported by Tsekpo, Wahua, Ngwenya, Akpomeyoma, and Brobbey (2024), and Tsekpo, Wahua, Akinsete, Mkombo and Anderson (2024).



## Test of Hypotheses

**H<sub>1</sub>:** *There is no significant relationship between profitability and financial reporting quality*

The result of the random effect regression analysis from Table 2 shows that our apriori expectation of  $\beta_1 < 0$  could not be sustained with a t- value of -0.06 and a probability value of 0.95. The result showed a non-significant relationship of profitability on FRQ. The result accepts the null hypothesis of no significant relationship between profitability and FRQ.

**H<sub>2</sub>:** **There is no significant relationship between firm size and financial reporting quality**

The result of the random effect regression analysis from Table 2 shows that our apriori expectation of  $\beta_3 < 0$  was sustained with a negative and statistically significant effect with a t-value of -2.15 and probability value of 0.03. The regression result shows that firm size predicts FRQ. Hence the null hypothesis of no significant relationship between firm size and FRQ is rejected

**H<sub>3</sub>:** **There is no significant relationship between audit firm size and financial reporting quality**

The result of the random effect regression analysis from Table 2 shows that our apriori expectation of  $\beta_1 < 0$  could not be sustained with a t- value of 1.02 and a probability value of 0.31. The result showed a non-significant relationship of audit firm size on financial reporting quality. The result accepts the null hypothesis of no significant relationship between audit firm size and financial reporting quality.

## Discussion of Findings

The study empirically investigates the relationship between firm traits (profitability, firm size and audit firm size) and financial reporting quality using descriptive statistics, panel regression analysis as the methods of analysing the data collected from the annual financial reports of firms listed on the NGX from 2019 to 2023.

Panel regression analysis revealed that no significant relationship exists between profitability and financial reporting quality. The result agrees with the study of Mahboub (2017) that also found profitability having no significant impact on financial reporting quality. The result is at variance with the school of thought that posit firms earning more profit tend to disclose more information in order to improve their financial reporting quality, distinguishing them from firms with weaker performance (Uwhejevwe-Togbolo, et. al., 2024; Kartiningsih, et. al., 2020; Hassan, et. al., 2013).

Furthermore, the panel regression results show firm size having a negative relationship with financial reporting quality as measured using the discretionary accruals. The result agrees with the view that larger firms tend to do better in terms of their financial reporting as they are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers (Serrasqueiro & Nunes, 2008). Further the result is in tandem with Hassan, et. al., (2013) who established that firm size has a positive and significant impact on financial reporting quality. The study is of the view that larger firms tend to have a good internal control system and are able to obtain high quality audit services from large public accounting firms that are expected to improve their financial reporting quality. They also care for their reputation by

presenting high financial reporting quality. The result disagrees with studies that show firm size having no significant relationship with financial reporting quality (Olowokure et al., 2016).

Lastly, audit firm size was found to have no significant relationship with financial reporting quality. The result is at variance with Schauer (2002) that found that compliance with GAAP reporting requirements increased as one moved from the LNBF to BF. The result also differs from DeFond et al. (2002) that found evidence showing that BF auditors are more often to report audit problems in a going-concern rather than NBF auditors. Further distinction can also be found with the studies of Geiger and Rama (2006) and Francis and Yu (2009) that both posit error rates type 1 and 2 which are made by BF auditor are lower than NBF auditors as well as BF auditors are more likely give a going-concern opinion on audited reports and the clients of BF auditors are proved to have less aggressive profit management.

### Conclusion

The study's objective was to investigate the relationship between a firm's financial reporting quality and its traits. Regarding the firm trait variables and the financial reporting quality, the panel regression estimate's results show mixed results. Financial reporting quality was found to be negatively correlated with audit firm size, although profitability and firm size did not significantly correlate with financial reporting quality.

The study's findings contribute to the expanding body of research on the financial reporting quality and firm traits in emerging economies. The report provides useful advice to a range of stakeholders, especially shareholders, on how to make sure that the directors overseeing their investments are

handling the firm's assets in a way that will guarantee future profits.

### Recommendations

In light of the study findings, the following recommendations are suggested

1. Profitability was found to have no significant relationship on financial reporting quality. The study recommends that emphasis should not be on structuring the financial reporting to show profit at all cost but rather management should prepare the financial statement to show the true state of affairs of the company at any point in time
2. Firm size was found to have a negative relationship with financial reporting quality suggesting that the larger the firm is in terms of its size the lower will be the discretionary accruals. The study recommends that shareholders should always support decisions geared towards expansion in terms of increasing the capital base of the firm as large firms often do not face pressure that will warrant manipulating earnings using discretionary accruals
3. Audit firm size was found to have no significant relationship with financial reporting quality. The result suggests that shareholders could make choices of the type of auditor they would engage based on cost and not necessarily must the auditor be a BF auditor. Audit fee could pose a huge financial burden to companies and a reduced audit fee by engaging a NBF auditor could improve the profit situation of the company

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