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Determinants of Financial Reporting Quality of Listed Firms in Nigeria

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Abstract
The study examined the determinants of financial reporting quality of listed firms in Nigeria. To achieve the objective of the study, ex-post facto research design was adopted. The data were collected through secondary source from annual report and accounts of the selected firms in Nigeria. The population of the study is made up of 55 listed firms while the sample size is 20 selected firms in Nigeria. The data collected were analyzed using panel data based-multiple regression analysis and moderated regression analysis. The result of the first hypothesis revealed that litigation risk has a significant effect on financial reporting quality of listed firms in Nigeria. The result of the second hypothesis revealed that risk of investor distrust has a significant effect on financial reporting quality of listed firms in Nigeria. The result of the third hypothesis revealed that default risk has no significant effect on financial reporting quality of listed firms in Nigeria. The result of the fourth hypothesis revealed that audit committee's legal expertise moderates the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria. Based on the results, the study recommends to the investors that before taking investment decisions in a company, they should prefer a company that has used industry auditor specialization because with the existence of industry specialization, auditors can limit the practice of earnings management that occurs in a company. This study encourages regulators in Nigeria to ensure that investors are confident and trust the quality of the financial reporting. The study further recommends that there is need for companies to employ risk management experts that would help their companies in managing risk and avoid any form of default risk that would negatively affect financial reporting quality of the company.

Keywords: *Audit committee, Default risk, Reporting, Investor distrust, Litigation risk*

INTRODUCTION

1.1 Background to the Study

Financial reporting quality is considered as an imperative concept in both developed and emerging capital markets (Mensah & Deajeon, 2013). The range of financial reporting quality is enormous and it can vary from the level earnings management to value relevance of the financial reports (Kim & Yang, 2014). Organizations who disclose more information have opportunity to obtain some benefits such as lower capital costs, gain investor confidence, and improve marketability of their shares and the quality of the financial report is vital for the users of financial statements in order to make informed decisions on the valuation and investment (Echobu, Okika & Mailafia, 2017). Further financial reporting quality is a device which reduces the information gap in between

insiders and the stakeholders. Furthermore, if management give quality financial reports, then they will be able to enhance the credibility of their reporting among stakeholders. As a result of the importance attached to quality of financial report, researchers, national accounting bodies and all other stakeholders began to turn attention to financial reports provided by corporate bodies within last few decades (Enakirerhi, Ibanichuka & Ofurum, 2020).

Kwambo (2020), observed that investors give more attention to earnings in the financial reports more than other accounting information; therefore, management becomes prone to influencing accounting earnings in order to meet investors' expectations. According to Shehu (2013), due to income smoothening activities, management can manipulate certain items in the financials to achieve a desired result. Manipulation of earnings impairs on the quality of financial reports and diminishes investors' confidence (Bansal & Sharma, 2016). Earnings management is a fundamental aspect of financial reporting quality. How earnings are recognized and measured is essential to the quality of financial reporting. Corporations, through their managers are duty bound to report business activities for the benefit of shareholders, potential investors, regulators/policy makers, suppliers of finance and other stakeholders. This is usually done through the production of annual reports covering their economic, financial, environmental and social activities. These reports are expected to be high quality information, portraying a true and fair view of transactions. However, the practice of earnings management lowers this process of producing quality financial reports and questions the credibility of the quality of reported earnings, (Ashafoke, Dabor & Ilaboya, 2021).

It is expected that the influx of investors into Nigeria will increase, hence the need to study the listed firm's financial reporting quality, as investors depend on financial reports to make decisions (Nyor, 2013). The choice of studying Nigerian firms is predicated on the credence that the Nigerian economy has great potential for growth. On this basis, it is therefore important and equally necessary to identify the determinants of quality financial reporting amongst Nigerian firms. This paper therefore seeks to investigate the determinants of financial reporting quality with a bias for listed firms in Nigeria.

1.2 Statement of the problem

In practice, the firms' management determines what information that should be disclosed, which is sometimes merely a standardized text that lacks a sufficient background or context. This invalidity of financial information has misled investors which in turn has led to wrong and harmful investment decision. One of such cases is that of the Enron Corporation. In Nigeria the issue of inadequate financial disclosure has led to collapse of firms on the Nigerian Exchange Group especially the case of listed firms. Many accounting scandals and financial crises happened lately in numerous distinguished firms have undermined investors' trust concerning the financial reports and have introduced several criticisms about financial reporting quality (Akeju & Babatunde, 2017). It has commonly been recognized that the key frustration give rise to these financial crises arisen instantly from the dearth of quality financial disclosure and insufficient governance practices (Chalaki, Didar & Riahnezhad, 2012).

Thus, the extensive failure in the financial disclosure has generated the demand by investors, regulators, and other stakeholders to enhance the financial information quality and to reinforce the control of managers by putting up adequate governance structures (Bedard, Chtourou & Courteau, 2004). This will allow investors to assess firms' effectiveness and to take timely correctional actions in making investment decisions (Eyenubo, Mohamed & Ali, 2017). Hence, firms must prepare financial reports with higher quality (Feng, Ge, Luo & Shevlin, 2011). That is, information disclosed must be reliable and relevant to assist users of financial reports in the decision-making (Fathi, 2013). Therefore, it is crucial that all listed firms present a comprehensible, inclusive and reliable depiction of their financial performance through quality financial reports (Fung, 2014).

Consequently, the demand and need for sufficient transparency and high quality corporate financial reporting, that is the truthfulness of the information disclosed by the financial reporting process is indispensable (Fung, 2014). Hence, quality of financial reporting, especially over the latest decade, has been of considerable concern to accounting researchers; however, one of the key problems is how to measure the determinants of financial reporting quality of firms. The quality of the information, however, is not always simply and instantly comprehended: diverse methods are applied in the previous studies to measuring financial reporting quality (Kythreotis, 2014).

1.3 Objectives of the study

The main objective of the study is to examine the determinants of financial reporting quality of listed firms in Nigeria but its specific objectives include to;

1) Ascertain the effect of litigation risk on financial reporting quality of listed firms in Nigeria.
2) Determine the effect of risk of investor distrust on financial reporting quality of listed firms in Nigeria.
3) Examine the effect of default risk on financial reporting quality of listed firms in Nigeria.
4) Ascertain the existent the audit committee's legal expertise strengthens the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria.

1.4 Research Hypotheses

The following null research hypotheses were tested during the course of the study;

1) Litigation risk has no significant effect on financial reporting quality of listed firms in Nigeria.
2) Risk of investor distrust has no significant effect on financial reporting quality of listed firms in Nigeria.
3) Default risk has no significant effect on financial reporting quality of listed firms in Nigeria.
4) Audit committee's legal expertise does not moderate the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria.

1.5 Scope of the Study

The study focused on the determinants of financial reporting quality of listed firms in Nigeria. This study specifically restricts itself to the listed firms on the Nigerian Exchange Group. This is necessary to capture the various determinants of financial reporting quality in a highly regulated environment. The determinants for the study are earnings management, value relevance, timeliness of reports and financial report comparability.

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Concept of financial reporting quality

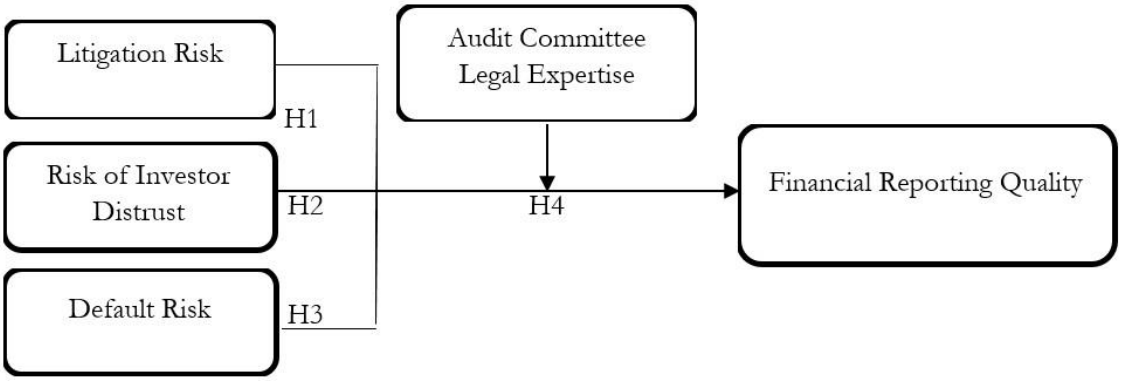
Financial reporting quality is a report presented based on the company's condition, which decreases due to the funder's ability to understand accounting. Excellent financial reporting quality reduces information asymmetry between the principal and agent in accordance with the company's legal obligations. When an error occurs during the reporting process, the legal committee's audit trustees correct it immediately to avoid creating problems for the company. The audit committees also possess the same professional capabilities as corporate lawyers and tend to communicate effectively with them in resolving problems that have legal implications. According to Akeju & Babatunde (2017), producing proficient financial reports raises the standard of employees responsible for preparing monetary statements. The employee involved in the activity needs to understand how the process and practice of accounting are run based on the rules of the company. Therefore, quality financial statements prevent the company from encountering a condition in which the investment is lower and serves as a tool for determining future fiscal policies. In this study, the quality of financial statements was measured using the real earnings model.

Due to the fact that quality of financial report guarantees and enforces the company to present good and accurate information, which in turn reduces the mystery and the conflict in information provided for both shareholders and stakeholders and other market participants interested in this report (Hambrick & Mason, 1984; Kalyta, 2009). The integrity and reliability of data produced by organizational information systems are critical, not just for the production of reliable financial reports, but also for overall business success (Krishnan & Parson, 2008). The important attributes for effective financial management include- access to relevant information; use of that information to enhance management standards; and assurance that the information is accurate, relevant and secure (Martin, Nishikawa & Williams, 2009). Accounting information systems maintain and produce financial statements containing information about accounts and their balances used by organizations to plan, evaluate and diagnose operations and financial position (Sepasi, Deilami & Tavakoli, 2017), therefore, the aim of the regulators should be to make accounting system that offers maximal benefits at lowest possible costs (Zhang & Wiersema, 2009).

Osamudiame, Nwadialor and Imuentinyan (2018), mentioned that quality of accounting information has critical effects on market participants' perceptions about the distribution and decisions related to the company future cash flow. On the other hand, Ogungbade, Adekoya and Olugbodi (2021), find both banks and government can get benefits of having the high-quality financial reporting, because it has a positive effect on private firms investment efficiency and financial performance, which in turn increases tax payment and lending from banks. Rasha (2017),

stated that financial reporting quality gets its credence from the fact that it helps in reducing information risk and enhancing liquidity. On the other hand, Kythreotis (2014), stress that financial reporting quality provides the users with information and financial statements, which are fundamental in debt contracting. Kamolsakulchai (2015), mentioned that financial reporting quality has many indicators that users could depend on to judge the quality of financial information and the financial statements as a whole and not just as earnings. This is why there are diverse determinants of financial reporting quality posited by scholars globally.

Figure 1: Conceptual model



Source: Researchers' compilation (2024)

2.1.2 Motives for quality financial reporting

Financial reporting quality is a means for managers to attract investors and other stakeholder groups' attention to their companies through presentation of reliable financial reports that are value relevant. Pourciau (1993), identified five hypotheses that influence managers' disclosure decision-making for quality financial report:

1) The capital market transaction hypothesis: Companies that make quality financial reports reduce information asymmetry and thus the reduced information risk decreases the cost of external financing;
2) The corporate control contest hypothesis: When the performance of companies is low, faithful earnings management is useful for managers to explain the poor performance and improve the firm evaluation, and thus it is more probable to retain their jobs;
3) The stock compensation hypothesis: quality financial reports are helpful both to managers rewarded with stock compensation to reduce the possibility of insider trading allegations, and to companies to decrease contracting costs with managers receiving stock compensation.
4) The litigation cost hypothesis: Managers communicate bad news to prevent legal actions against themselves, while they also reduce communications of future estimates that might prove to be incorrect; and
5) The proprietary costs hypothesis: Managers will decrease quality of financial reports when they deem that these could be competitively harmful.

White (2007), mentioned that justifying financial reporting regulation is often quite challenging and there is no comprehensive theory of quality financial reporting. The four main justifications for quality report regulations are:

1) Financial externalities: they appear when a company discloses information not only about its own financial position, but as well about that of other companies. Since a company usually ignores information about other companies, the rival companies have incentive to decrease the provision of information. In this case, regulation is improving social welfare.
2) Real externalities: they exist when a company's disclosure affects other companies' real decisions (e.g. about their production volume). If disclosed information allows other companies to make more informed decisions, regulations mandating additional disclosure can improve social welfare.
3) Agency costs: regulators can enforce disclosure when investors are powerless and they could not force managers to comprehensively disclose information about their financial position. This also increases social welfare.
4) Economies of scale: common accounting standards are beneficial since they improve the comparability of disclosures across firms and they decrease investors' effort to gather information. Thus, it is more probable to reach to accurate estimates of the performance of various firms and achieve economies of scale in terms of interpreting disclosures for investors.

2.2 THEORETICAL REVIEW

This study is anchored on the signaling theory as propounded by Merton, Miller and Rock (1985). The agency theory being the supporting theory is also discussed.

2.2.1 The Signaling Theory

This theory refers to the idea that the agents send information to the principal in order to create credible relationship. Managers have more first-hand information about the firm than firm's investors do but they are always reluctant to provide transparent information to the shareholders. So, the financial characteristics of a firm can be used for information purpose and it also act as a signal for the firm's future projection proficiently. Information signaling model developed by Merton, Miller and Rock (1985), suggest that financial data convey information to individual and institutional investors regarding the firm's future prospects. Indeed when a company listed on the Stock Exchange makes pronouncement about its trading in regards to its financial performance, the expectations of the public especially speculators tend to rise.

2.2.2 Agency Theory

Jensen and Meckling (1976), developed agency theory. As the name suggests, the theory tend to explain the relationship between agents and owners of the business. For this reason, agency theory is used mostly in explanatory models. Conditionally, Principals normally give orders to their agents while the agents abide by the instructions of their principals. However, the agents have specific interests when taking these orders from the principals who give orders and their specific interests should not be convergent. Furthermore, because of specialization, the agent has advantage of achieving result, the used process and the important information on his /her tasks. The main

challenge is that, the agent is the main actor in utility maximization might use that advantage for his /her personal interests (Roxas & Stoneback, 2004).

Agency theory was used to give a comprehensive explanation of existing relationship between the type of firm size and financial disclosure. The relationship between manager and owner is similar to the one between agents and principal (Kaklar, Kangarlouei & Motavassel, 2012). When the firm owner contracts self-cantered managers to manage his/her firm, they maximize utility for their personal interest and this may result to decline in the information sent out to stakeholders. Since managers effectively control the firms at the expense of the owners, they have the potential to consume benefits on behalf of the firm owners.

2.3 EMPIRICAL REVIEW

Ashafoke, Dabor and Ilaboya (2021), explored the effect of CEO characteristics on financial reporting quality of listed financial firms with a sample of 15 firms operating in Nigeria from 2008 – 2019. They drew insights from the upper echelon theory to investigate the effect of CEO characteristics on the financial reporting quality. CEO characteristics was measured using variables such as CEO gender, CEO financial expertise and CEO tenure. They analyzed the data using the panel regression analysis. Empirically, their results showed that there is a positive and insignificant relationship between the CEO gender and financial reporting quality. CEO financial expertise revealed a negative and significant relationship with financial reporting quality while, CEO tenure revealed a positive and significant relationship with financial reporting quality.

Ogungbade, Adekoya and Olugbodi (2021), examined the effect of audit quality on financial reporting quality of deposit money banks listed on the Nigerian stock exchange. Data were extracted from audited annual reports of all the 11 deposit money banks listed on the Nigerian stock exchange for ten years from 2009-2018. The study used panel multiple regression and employed Hausman's test to choose between Random and fixed-effect model. Random effect model was chosen and interpreted. They found out that audit firm size, audit tenure, and audit fees affect financial reporting quality (FRQ), but only the effect of audit fees was statistically significant.

Irwandi and Pamungkas (2020), investigated the determinants of financial reporting quality, which is a very complex issue in the industry and a significant contributor to a company's finance. The data were obtained from the annual reports of the companies listed at the Indonesia Stock Exchange during 2015-2018. The research sample consists of 287 public companies, with moderated regression analysis used to examine the hypotheses. The results show that the risk of investor distrust affects financial reporting quality, while legal expertise of the audit committee is a moderating variable that strengthens the relationship between the risk of investor distrust and financial reporting quality.

Kwambo (2020), examined the determinants of financial reporting quality of Lotus Islamic Index for the period 2012 to 2018. A quantitative panel data approach was employed based on extracted information from the annual reports and accounts of these companies. Multiple regressions aided the analysis of the data collected; findings revealed that the internal control system's control

environment, external audit independence and liquidity are not significantly related to financial reporting quality.

Enakirerhi, Ibanichuka and Ofurum (2020), examined firms' profitability and the quality of financial reports: pre and post IFRS adoption in Nigeria. Their study used the quantitative method of analysis, the multiple regression analysis to examine what effect return on equity and return on assets have on earnings quality and t-test of mean difference to test for difference between the mean of pre and post IFRS adoption. To analyze earnings quality, discretionary accrual is measured using the Jones' model. The results show that the effect of profitability on the quality of earnings after adoption of IFRS is mix depending on what measure of profitability was adopted. ROE has negative (positive) effect while ROA has positive (negative) effect on discretionary accruals (earnings quality). On the impact of IFRS adoption on profitability of firms, the results show a non-significant impact on the return on equity of firms and a statistically significant impact on the return on assets of firms.

Daferighe and George (2020), examined the impact of audit firm attributes on the financial reporting quality of quoted firms in Nigeria for the period of 2011 to 2015. Ex-post facto research design was adopted in the study. Data were obtained from the published annual reports and accounts, notes to the financial statements of the sixteen firms that represent the sample of the study. Multiple regression analysis was employed in analyzing the data and testing the stated hypotheses. The results of the findings showed that auditor fees have significant influence on the financial reporting quality of quoted firms in Nigeria. However, it was discovered that audit firm size and audit delay have insignificant impact on the financial reporting quality of firms in Nigeria.

Al-Dmour (2018), examined empirically the proposed relationship between the quality of financial reporting and non-financial business performance in public listed companies in Jordan and to find out whether their demographic attributes (type, size and experience) have any impact on the quality of financial reporting. For these purposes, a conceptual framework based on the content analysis of the previous studies was developed. The data for the research were collected through self-administrated questionnaire of 239 respondents from public listed companies in Stock Amman Market database (2017). The results showed that that the components of the quality of financial reporting are significantly influence the non-financial business performance and the variations of the quality of financial reporting among these companies were significantly found to be related to their size and experience and not to their type of business, which they belong to.

Osamudiame, Nwadialor and Imuentinyan, (2018), carried out an investigation of the relationship between audit tenure and the quality of financial reporting of 80 listed companies on the Nigerian Stock Exchange for seven years indicates a significant relationship between audit report and financial reporting quality. Still, the study suggests no significant relationship exists between audit firm size, audit tenure, and financial reporting.

Gounopoulos and Pham, (2018), investigated the relationship between financial expert CEOs and earnings management around initial public offerings. The study examines United States common-

share IPOs with a final sample of 467 IPO firms (2003-2011), from the Securities Data Corporation (SDC) New Issues database. The study used two methods- accrual-based and real earnings management, for measuring earnings management. The accrual-based method made use of abnormal accruals as a proxy for measurement based on the accrual model. The real based method measured as proxies, abnormal cash flow, abnormal discretionary expenses and abnormal production costs. The report however, explains that CEOs with financial expertise are less likely to manage earnings either through accruals and real earnings.

Sanni, Ijasini and Adamu (2018), assessed the effect of corporate characteristics on voluntary disclosure of listed financial service firms in Nigeria for the period of 2014-2018. The study used correlational research design. Data for the study was extracted from yearly-published financial report of listed financial service firms in Nigeria. All the listed financial service firms were considered for the population of this study, while the sample was adjusted population of thirteen (13) listed financial service firms in Nigeria. Using paneled regression technique, the study found that profitability and leverage have negative and significant effect on the voluntary disclosure of financial service firms in Nigeria. However, positive and significant relationship exists between firm size and voluntary disclosure.

Echobu, Okika and Mailafia (2017), investigated the determinants of financial reporting quality in listed agriculture and natural resources firms in Nigeria. Owing to the widespread advocacy to diversify the Nigerian economy, the choice of the agriculture and Natural Resources sectors, being a prospective mainstay of the economy is necessary, so that investors and other stakeholders will understand the financial reporting practices in the sectors. The sectors comprise of 9 listed Agriculture and Natural Resources Firms, made up of 5 Agriculture and 4 Natural Resources firms. A sample of 7 firms was drawn from the population. Data was collected through secondary sources from annual financial reports of the firms from 2008-2015. The study adopted the correlation and ex-post factor research designs and employed the use regression as a tool for data analysis. The results showed a positive significant relationship between leverage, liquidity, board size and financial reporting quality, measured using residuals from the modified Jones model.

Eyenubo, Mohamed and Ali (2017), examined the relationship of audit committee size and financial reporting quality in Nigeria. The empirical study has performed using a sample of 189 companies and 664 year observation from the period of 2011-2015. One of the desirable features of corporate governance is to enhance financial reporting quality for facilitating efficient and effective resources allocation of economic decision making by corporate managers. Panel data regression was adopted and audit committee size was found positive and significant with financial reporting quality.

Olowokure, Tanko and Nyor (2016), Using secondary data from the published reports of thirteen listed deposit money banks in Nigeria for over a period of ten years between 2005 and 2014, analyzed the determinants of financial reporting quality and reports the findings of the impact of structural characteristics like age, size and level of leverage on financial reporting quality. Using prior studies as a guide, they developed a model for loan loss provisions and generated the residuals, using these residuals know as abnormal loan loss provisions as the dependent variable

for the multiple regression analysis, the study did not find any evidence of significant relationship between firm age, size, leverage and financial reporting quality.

However, Kamolsakulchai (2015), in Thailand, carried out a similar research and the outcome of the panel fixed effect model of listed companies on Thailand stock exchange from 2008 -2012 shows that audit quality has a significant positive relationship with financial reporting as financial accounting reports complied with generally accepted accounting standards.

Kim and Yang (2014), studied the relationship between director tenure and financial reporting quality in Korea. The study investigates listed non-financial firms in Korea with a sample size of 5,502 firm-year observations over the period 2002 – 2011. The study employed three proxies-absolute value of discretionary accruals using performance matched modified jones model, earnings persistence model and earnings response coefficient (ERC) model for measuring financial reporting quality amongst others. Extant literatures (Ali and Zhang, 2012; Hermalin and Weisbach, 2012; Bedard, et. al., 2004 and Liu and Sun, 2010) have shown that the tenure of policy makers such as CEOs and Audit Committee members affects the financial reporting quality, of which no study had been done on board directors' tenure and financial reporting quality. The study in view of this shortcomings carried out the research. The study also extended the research by using three measures of proxies to estimate financial reporting quality, as opposed to the one proxy used by Lin and Sun (2010). The findings show that the board of directors with longer tenure report lower discretionary accruals, which indicates a positive significant effect on financial reporting quality. The study suggests that a further research be done, considering other proxies to extend the result of this study.

In the same vein, the study of Santoso (2014), investigates the relationship between CEO characteristics and earnings management among Indonesia public listed firms in 2012. The study used CEO characteristics such as tenure, age, gender, and founding family CEOs to determine its influence on earnings management. However, the study used absolute discretionary accruals as a proxy measurement of earning management. The findings reveal that longer tenured CEOs actually report higher discretionary accruals than CEOs with shorter tenure, which is an indication of a negative significant effect on financial reporting quality. This result is inconsistent with the findings of Kim and Yang (2014), which revealed that CEOs with longer tenures tend to report lower discretionary accruals.

2.4 GAP IN LITERATURE

Researches on determinants have been on going over the past decades, but emphasis has been laid on corporate characteristics by authors like Irwandi and Pamungkas (2020); Afify (2009); Alqatamin, et. al., (2017); as against earnings management, value relevance, comparability of financial reports and timeliness as posited by Dechow and Dichev (2002); Dechow, et. al., (2010). This is a methodology gap that the current research intends to fill by examining the determinants of financial reporting quality of listed firms in Nigeria, using survey research design to ascertain the level of financial reporting quality.

METHODOLOGY

3.1 Research Design

This study made use of an ex-post facto research design. Ex-post facto is a systematic empirical enquiry in which the scientist does not have direct control of independent variables because they are inherently not manipulated. A content analysis of the annual reports of a cross sectional sample of listed companies with accounting period January to December for ten years ranging from 2012 - 2022 was conducted. Each annual report was carefully scrutinized and scored.

3.2 Population Size

The population consisted of all the One hundred and seventy three (173) listed companies at the Nigerian Exchange (NGX) Group within the period ranging from 2012 - 2022. The entire 173 listed companies constituted the population size.

3.3 Sample Size

The sample size of 20 listed firms were selected from the population based on judgmental sampling which covers a representation of all the 11 sectors. For the purpose of this study 20 listed firms were systematically selected as the sample size of the study. The firms selected (i) must be listed and have a comprehensive annual reports between 2012 and 2022, and (ii) only firms that did not change their names as a result of takeover, merger or acquisition through the period of the study, and (iii) firms performing in terms of the volume of stock traded and market capitalization were systematically selected.

3.4 Data sources / Methods of data collection

For the purpose of the content analysis undertaken in this study, secondary data was utilised. The secondary sources of data was obtained from the annual audited reports.

3.5 Model specification

The structural equation modeling (SEM) was employed in this study. The SEM captured both the measurement model and the structural model. The SEM is stated as thus:

FRQ $= B_0 + B_1$**R (LR, RID, DR)** $+ u$ ---------- **(1)**

FRQ $= B_0 + B_1$**R (LR, RID, DR)** $+ B_2$ACLE $+ B_3$**R*ACLE** $+ e_i$ ------ **(2)**

In the models**,** **FRQ** stands for financial reporting quality; **R** stands for risk; **LR** stands for litigation risk; **RIS** stands for risk of investor distrust; **DR** stands for default risk; **ACLE** stands for audit committee legal expert.

3.6 Data Analysis Techniques

The data for the dependent and independent variables were captured from the questionnaire and collated with the aid of Microsoft Excel 2013. The gathered data were scrutinized and analyzed by employing structural equation modeling using SMART PLS Version 3.3.3. Univariate, bivariate and multivariate analyses were employed in exploring the secondary data. The univariate statistics of mean, median, standard deviation, minimum, and maximum was used to describe the patterns of data.

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

This section of the chapter presents the data extracted from the financial statement of the 20 listed firms in Nigeria (2012-2022). The data were obtained from the Nigeria Exchange Group website.

4.2 Data Analysis

This section analyzes the data presented with the aid of E-View 9 (Econometric View) and SPSS version 22. The analysis of data is presented in the subsequent sections:

Table 1: Descriptive statistics

The descriptive statistics for both the dependent and independent variables are presented in table 1 below:

	LR	RID	DR	ACLE	FRQ
Mean	27.59749	6.266484	0.618110	0.649205	43001225
Median	7.310700	0.700000	0.190856	0.500000	230347.5
Maximum	261.0000	469.0000	6.403811	2.750000	7.04E+09
Minimum	0.200000	-14.30000	0.006831	0.333333	-44284528
Std. Dev.	53.52002	38.23351	0.956971	0.435830	4.81E+08
Skewness	2.841973	10.53145	3.031825	2.518963	14.15572
Kurtosis	10.64169	117.9733	14.61207	8.704155	205.8935
Jarque-Bera	831.4410	124670.4	1573.074	530.9157	384700.3
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	6071.447	1372.360	135.9842	142.8250	9.46E+09
Sum Sq. Dev.	627302.0	318672.6	200.5586	41.59858	5.07E+19
Observations	**220**	**219**	**220**	**220**	**220**

Source: Researchers' computation (2024)

Table 1 showed the result of the descriptive or summary statistics of various variables (LR, RID, DR, ACLE and FRQ). The summary statistics were used to compare the measures of central tendency, the measures of dispersion and the measures of normality of the data set. The measures of central tendency compared the mean and median values of the data set. While the mean considered the average values of the variables the median looked at the middle distribution of the data set. From the result, it could be observed that the mean values of LR, RID, DR, ACLE and FRQ were respectively, 27.59749, 6.266484, 0.618110, 0.649205 and 43001225. The measures of dispersion considered how widely spread the dataset was from their mean values. The measures of dispersion considered in this study were the minimum value, the maximum values and the standard deviation. From the E-view output, the dataset for minimum for LR, RID, DR, ACLE and FRQ ranged respectively from 0.200000, -14.30000, 0.006831, 0.333333 and -44284528.

However, the maximum values are 261.0000, 469.0000, 6.403811, 2.750000 and 7.04E+09 for LR, RID, DR, ACLE and FRQ respectively. The standard deviation measures how far the observations are from their sampled averages. From the summary output of the data set, the standard deviation were 53.52002, 38.23351, 0.956971, 0.435830 and 4.81E+08 respectively for LR, RID, DR, ACLE and FRQ.

The normality test measures whether the data set is normally distributed or otherwise. The measures of normality considered by this study were skewness and kurtosis. Skewness measured the degree of asymmetry of the series. The series may be normally skewed, positively skewed or negatively skewed. A skewness value of zero is said to be normal and implies that the distribution is symmetry around its mean; a positive skewed value implies that the distribution has a long right tail, implying that the skewness value is higher than the sampled mean. A negative skewness implies that the distribution has a long left tail with lower values than the sampled mean. From the E-view result, the skewness values of 2.841973, 10.53145, 3.031825, 2.518963 and 14.15572 respectively for LR, RID, DR, ACLE and FRQ. The result showed that all the variables (LR, RID, DR, ACLE and FRQ) have positive values, implying that they have a long right tail.

Kurtosis measures the peakedness or flatness of the data relative to the normal distribution. Kurtosis could be mesokurtic, leptokurtic or platykurtic. A kurtosis value of 3.0000 is mesokurtic, meaning that the distribution is normal. A kurtosis value greater 3.0000 is said to be leptokurtic or positive kurtosis, meaning that it has a peaked curve and produces higher values than the normal. A kurtosis value less 3.0000 is platykurtic or negative kurtosis, meaning that it has a flatted curve and that it produced lower values than the sample mean. From the result obtained in table 4.1 for the dataset, the kurtosis values of 10.64169, 117.9733, 14.61207, 8.704155 and 205.8935 respectively for LR, RID, DR, ACLE and FRQ. All the variables (LR, RID, DR, ACLE and FRQ) were greater than 3.0000 required for a normal distribution. It, therefore, means that they were leptokurtic, meaning that they produced higher value than the normal.

The Jarque-Bera (JB) test measures the difference of the skewness and kurtosis of the series with those from the normal distribution. The null hypothesis for the JB statistics is that the series is normally distributed. Given the result in table 1 above, the JB values of 831.4410, 124670.4, 1573.074, 530.9157 and 384700.3 respectively for LR, RID, DR, ACLE and FRQ with the following respective P-value 0.000000, 0.000000, 0.000000, 0.000000 and 0.000000. Therefore, LR, RID, DR, ACLE and FRQ have P-values less than 0.05 (5 per cent) which means that the null hypothesis of no auto correlation is not accepted.

4.2.2 Data validity test

In order to ensure that the results are robust, several diagnostic tests are conducted to enhance the validity of data and model specified for analyses. As such, data diagnostic test such as; the Unit root test is computed. Before that, the correlation analysis is done.

4.2.2.1 Correlation analysis

This section of the chapter presents in the table below the result of the correlation analysis between the independent variables to further validate the Tolerance statistic and VIF result.

Table 2: Correlations

	LR	RID	DR	ACLE	LFRQ
LR	1.000000				
RID	0.019124	1.000000			
DR	-0.082711	-0.065343	1.000000		
ACLE	-0.013286	0.698169	0.010280	1.000000	
LFRQ	0.100560	-0.063384	-0.038381	0.157237	1.000000

Source: Researchers' computation (2024)

Table 2 showed the correlation of the variables employed in this study. This study places specific emphasis on the determinants of financial reporting quality in firms (LR, RID, DR and ACLE). The relationship between financial reporting quality (FRQ) and litigation risk (LR) is (r= 0.100560). This implies that there is a positive but weak correlation between FRQ and LR. Risk of investor's distrust (RID) have negative correlation with financial reporting quality (r= -0.063384). Default risk (DR) has negative correlation with financial reporting quality (r= -0.038381). Finally, audit committee legal expertise has positive but weak correlation with financial reporting quality (r= 0.157237).

4.3 Regression of the Estimated Model Summary

Model 1: Effect of LR, RID & DR on financial reporting quality.

Table 3: Model Summary 1

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		8.674923	3	0.0339
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.988152	0.092895	64.46168	0.0000
LR	-0.005511	0.002770	-1.989380	0.0486
RID	-0.006603	0.001157	-5.708017	0.0000
DR	0.012435	0.070049	0.177517	0.8594
R-squared	0.751552	Mean dependent var		5.796808
Adjusted R-squared	0.711944	S.D. dependent var		1.106645
S.E. of regression	0.593946	Sum squared resid		48.68244
F-statistic	18.97490	Durbin-Watson stat		1.254057
Prob(F-statistic)	0.000000			

Source: Researchers' computation (2024)

Table 4.3, presents the regression result on the effect of litigation risk, risk of investor distrust and default risk (LR, RID & DR) on financial reporting quality (FRQ). From the model summary table above, the following information can be distilled.
To enable the study chose between the fixed effect model and the random effect model, a Hausman Test is conduct with the comparable results placed in the appendix 4A. The result of the Hausman correlation test above shows a cross sectional random probability value of 0.0339 with a Chi-square statistic of 8.674923 which is significant thus informs the study decision to choose the fixed effect model in other to capture other financial transparency techniques not included in this study that might cause variations in the model specified.

The R^2 which measure the level of variation of the dependent variable caused by the independent variables stood at 0.751552. The R^2 otherwise known as the coefficient of determination shows the percentage of the total variation of the dependent variable (FRQ) that can be explained by the independent or explanatory variables (LR, RID & DR). Thus the R^2 value of approximately 0.752 indicates that 75.2% of the variation in the FRQ of listed firms can be explained by a variation (LR, RID & DR) while the remaining 24.8% (i.e. 100-R^2) could be accounted by other factors not included in this model.
The adjusted R^2 of approximately 0.712 indicates that if other factors are considered in the model, this result will deviate from it by only 0.04 (i.e. 0.752 – 0.712). This result shows that there will be a further deviation of the variation caused by the independent factors to be included by 0.04%.

The regression result as presented in table 4.3 above to determine the relationship between LR, RID & DR and FRQ shows that when all the independent variables are held stationary; the FRQ variable is estimated at 5.988152. This simply implies that when all independent variables are held constant, there will be an increase in the FRQ of listed firms up to the tune of 5.988152% occasioned by factors not incorporated in this study. Litigation risk has the value of -0.005511. Therefore, a unit increase in litigation risk (LR) will lead to a decrease in FRQ by -0.005511%. For risk of investor distrust, a unit increase in risk of investor distrust (RID) will lead to a decrease in FRQ by 0.006603%. Finally, a unit increase in default risk (DR) will lead to an increase in FRQ by 0.012435%.
Finally, the result shows that there is a significant variation of Fisher's statistics (18.97490) with probability value of 0.00000 which means the model as a whole is statistically significant at an autocorrelation level of 1.254057 (Durbin-Watson), which is less than 2.5.

HO_1: Litigation risk has no significant effect on financial reporting quality of listed firms in Nigeria.
Since the calculated probability value 0.0486 is less than the accepted probability value of 0.05. The null hypothesis is rejected and the alternative hypothesis accepted thus; litigation risk has a significant effect on financial reporting quality of listed firms in Nigeria.
HO_2: Risk of investor distrust has no significant effect on financial reporting quality of listed firms in Nigeria.

Since the calculated probability value 0.0000 is less than the rejected probability value of 0.05. The null hypothesis is accepted and the alternative accepted thus; risk of investor distrust has a significant effect on financial reporting quality of listed firms in Nigeria.

HO3: Default risk has no significant effect on financial reporting quality of listed firms in Nigeria.

Since the calculated probability value 0.8594 is greater than the accepted probability value of 0.05. The null hypothesis is accepted and the alternative rejected thus; default risk has no significant effect on financial reporting quality of listed firms in Nigeria.

Model 2: Moderating effect of audit committee's legal expertise on the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria.

This section of the chapter presents the results produced by the model summaries for further analysis.

Moderated Regression Analysis (MRA) Test Results for Model 2

Table 4: Model 2 Summary

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	110.594	4	27.649	3.912	.004[b]
	Residual	1519.657	215	7.068		
	Total	1630.251	219			

a. Dependent Variable: FRQ
b. Predictors: (Constant), R*ACLE, RID, DR, LR

Table.5: Moderated Regression Analysis.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4.153	.245		16.958	.000
	LR	.010	.004	.199	2.325	.021
	RID	.006	.005	.090	1.317	.189
	DR	-.055	.196	-.019	-.279	.781
	R*ACLE	-.002	.001	-.329	-3.667	.000

a. Dependent Variable: FRQ

Source: Researchers' computation (2024)

Table 4 and 5 presents the moderated regression result of the effect of audit committee's legal expertise on the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria. From the model summary in table 5, the following information can be distilled.

Moderated multiple linear regression is a specific type of multiple linear regression in which the effect of the predictor variable on the outcome variable is conditional upon the level/value of another predictor variable (i.e. moderator variable). Moderator variable upon which a relationship between two other variables is conditional, a significant moderating effect can be referred as an interaction effect.

Looking at table 5, audit committee's legal expertise moderated the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria. The moderated regression result as presented in table 5 showed that when the moderating and the predictor variable are held constant, the FRQ variable is estimated at 4.153. This simply implies that when all variables are held constant in the long-run, there will be an increase in the financial reporting quality of listed firms up to the tune of 4.153 units occasioned by short run factors not considered. After adjustment for short run (Beta), a unit increase in R*ACLE will lead to a decrease in FRQ by 0.002%.

The table further shows the Fisher significant value of 3.912 with the significant value of 0.004 shows that the model is statistically significant.

Test of hypothesis four

The hypotheses formulated in chapter one was tested in this section in line with the decision rule in chapter three.

$H0_4$: Audit committee's legal expertise does not moderate the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria.

Given that the accepted significant level is 0.05 and the calculated significant value of 0.004 is less than the significant level, the study reject the null hypothesis and therefore conclude that audit committee's legal expertise moderates the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria.

4.4 DISCUSSION ON FINDINGS

4.4.1 Effect of Litigation risk on financial reporting quality of listed firms in Nigeria.

The findings from hypothesis one revealed that litigation risk has a significant effect on financial reporting quality of listed firms in Nigeria. bWarp PLS version 5.0 is used as a data processing tool. The object of this research is food and beverage companies that are listed on the Indonesia Stock Exchange period 2013-2017. The test results prove that litigation risk affects earnings management and audit quality strengthens the influence of litigation risk on earnings management. Atiqah & Agus (2011) and Kirana & Hardi (2016) both show that litigation risk has no influence on earnings management. In contrast, Kartika and Nahumury (2014) research explains that litigation risk has an influence on earnings management with a significant level of 0.02. Litigation risk has a negative influence on earnings management (Sari, 2015). This means that if the high level of risk of litigation will reduce the occurrence of earnings management. From the research above all shows that audit quality can moderate the influence between litigation risk and earnings

management. But not with Kartika and Nahumury (2014) research which states that quality audits cannot strengthen the relationship between litigation risk and earnings management. The explanation above shows that the results of the research are still not consistent, therefore this theme is still interesting to review.

4.4.2 Effect of risk of investor distrust on financial reporting quality of listed firms in Nigeria.

The findings from hypothesis two revealed that risk of investor distrust has a significant effect on financial reporting quality of listed firms in Nigeria. The result is consistent to the result of Irwandi and Pamungkas (2020) who investigated the determinants of financial reporting quality, which is a very complex issue in the industry and a significant contributor to a company's finance. The data were obtained from the annual reports of the companies listed at the Indonesia Stock Exchange during 2015-2018. The research sample consists of 287 public companies, with moderated regression analysis used to examine the hypotheses. The results show that the risk of investor distrust affects financial reporting quality, while legal expertise of the audit committee is a moderating variable that strengthens the relationship between the risk of investor distrust and financial reporting quality.

4.4.3 Effect of default risk on financial reporting quality of listed firms in Nigeria.

The findings from hypothesis three revealed that default risk has no significant effect on financial reporting quality of listed firms in Nigeria. The result is contrary to the result of De la Torre, et al (2010), who examined the effect of perceived default risk and accounting information quality on the decision to grant credit to SMEs. The results confirm that the likelihood that the loan officers are more willing to provide access to credit to SMEs, and to do so in more favourable conditions, is negatively influenced by perceived default risk and positively influenced by the general perception about accounting information quality. Besides, we find that information quality is an antecedent of perceived risk, so that the latter becomes the central element of the research model.

4.4.4 Moderating role of audit committee's legal expertise moderates the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria.

The findings from hypothesis four revealed that audit committee's legal expertise moderates the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria. The result of this study is in accordance with the research conducted by Jeffrey et al. (2014) stated that in carrying out duties, members of the audit committee who have knowledge of law or legal aspects need to conduct the management to refrain from policies that tend to degrade the quality of financial statements. The board of directors needs to be independent in making decisions to avoid deterioration which is caused by the audit committee.

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

The following findings are arrived at through the test of the research hypotheses earlier formulated in this study.

i. Litigation risk has a significant effect on financial reporting quality of listed firms in Nigeria.
ii. Risk of investor distrust has a significant effect on financial reporting quality of listed firms in Nigeria.
iii. Default risk has no significant effect on financial reporting quality of listed firms in Nigeria.
iv. Audit committee's legal expertise moderates the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria.

5.2 Conclusion

The study examined the effect of the determinants of financial reporting quality of listed firms in Nigeria. Twenty (20) firms were used as the sample size of the study. The data collected were analyzed using panel regression analysis and moderated regression analysis using both E-View and SPSS respectively. This study enables the proper regulation of rules for better legal protection for investors. The result revealed that litigation risk has a significant effect on financial reporting quality of listed firms in Nigeria. Risk of investor has a significant effect on financial reporting quality of listed firms in Nigeria. Default risk has no significant effect on financial reporting quality of listed firms in Nigeria. Audit committee's legal expertise moderates the relationship between litigation risk, risk of investor distrust, default risk, and financial reporting quality of listed firms in Nigeria. Therefore the study concludes that litigation risk, risk of investor distrust and audit committee's legal expertise are the major determinants of financial reporting quality in firms in Nigeria.

5.3 Recommendations

The following recommendations are made:

(i) The study recommends that investors before taking investment decisions in a company to prefer a company that is use industry auditor specialization because with the existence of industry specialization auditors can limit the practice of earnings management that occurs in a company.
(ii) This study encourages regulators in Nigeria to ensure investors are confident and trust the quality of the financial reporting.
(iii) There is need for companies to employ risk management expert that would help their company in managing risk and avoid any form of defaut risk that would negatively affect financial reporting quality of the company.

(iv) Furthermore, it explains the role of the audit committee, in professional organizations like the Nigeria capital investment supervision agency, to ensure that regulations are formulated to protect the interests of investors.

5.4 Contribution to Knowledge

There has been two major gap identified in the previous literatures which this study has attempted to fill. Thus;

i. This study has contributed in the area of enriching the existing literatures on the determinants of financial reporting quality of firms in Nigeria.
ii. The study also has contributed in bridging the methodological gap that capture the various determinants of financial reporting quality such as litigation risk, risk of investors distrust and default risk.

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