Journal of Accounting and Financial Management E-ISSN 2504-8856 P-ISSN 2695-2211
Vol 9. No. 12 2023 www.iiardjournals.org

An Analysis of Factors Affecting Financial Reporting Quality in Nigeria Pharmaceutical Sector

Amah, Kalu Ogbonnaya[1] & Amauwa, Basil C.[2]
[1&2]Accounting Department, College of Management Sciences,
Michael Okpara University of Agriculture, Umudike, Abia State Nigeria
Correspondence: Amah Kalu Ogbonnaya Email:
kaluogbonnaya30@yahoo.com

DOI: 10.56201/jafm.v9.no12.2023.pg15.25

Abstract

The study evaluated the factors affecting financial reporting quality in the Pharmaceutical sector in Nigeria. The specific objective of the study was to investigate the extent to which the variables chosen affect financial reporting quality in the Pharmaceutical sector. Accrual model was used to compute the proxy for financial reporting quality, while the independent variables were Profit after tax, Leverage, Age of the company, Total assert, Human Capital and Total equality of the company. A total of 10 pharmaceutical companies were used for the study, time series data used were obtained from annual report of the selected pharmaceutical companies from 2011-2020.The ordinary least square techniques were used to analyse the data. The result indicate a positive impact on financial reporting quality, the study therefore conclude that profit after tax, age total assert human capital total assert have significant effect on financial reporting quality of Pharmaceutical firms in Nigeria. The study recommends that handling the factors well it will go a long way in making sure that financial report comes out of high quality than before.

Keywords: *Human Capital; Financial reporting quality; Pharmaceutical Companies; Accrual Model*

Introduction

The primary aim of any report is to cove information to the users of the report, in the case of financial reporting, the aim is to provide high quality financial reporting information about the organisation as a whole, for the users in making decisions. The importance of financial accounting report is valid by its quality Abebaw(2020). The fundamental idea of financial information quality is that some accounting information is better and more reliable than other accounting information in relation to its characteristic of communicating to users; as a result accounting quality is of great interest to several types of users involved in the financial reporting chain, Pounder (2013).

The Nigeria Pharmaceutical sector has been characterised by accountability problems ranging from asset misappropriation , fraud etc This challenges helps to identify the factors that affect financial reporting quality in Nigeria Pharmaceutical sector, since the sector dominate over the other sector of the economy. Much of the economic activities are centred in the Pharmaceutical sector hence the need to place emphasis on high level of accountability and financial reporting quality of this sector in Nigeria community.

The financial accounting standard Board FASB (2010) maintained that the common objective of financial reporting is to provide information about financial position of an organisation economic resources and its net worth. According to Tesseme(2021) the aim of annual report is to provide a fair review of the development of company business and position. Transparency is particularly presentation of annual report for listed companies. Kotheri(2009) penned that the consensus among financial economist is that a rich disclosures environment and low information asymmetry have many desirable consequences such as efficient allocation of resources, capital market development market liquidity, decline cost of capital cost of capital, lower return volatility and high analyst accuracy .

Despite the obvious benefits of good quality financial reporting, misleading financial information has continued to be a canker worm to the integrity financial information needed for making varying economic decision. In comparison to many nations the quality of financial information in Nigeria remains omission. Soyami & Olawale(2019). The further said that they believe that the regulatory monitoring of the Nigeria market is less stringent than that of developed market. The position of Nigeria, the population and consuming power on the Africa further makes it more important for high quality of financial information.

Many authors has advanced a number of factors affecting financial reporting quality, one of such is Camp & Camach(2013) such as size, Profitability, tangibility of assets, firm growth, liquidity among others, Awodiran & ogundele(2022) mention factors as firm growth, profitability , asset tangibility , financial distress, Tessema, B.T.(2021) mentioned financial leverage, firm size, Profitability , ownership structure of company, Board size, IFRS adoption of company are among other things. Therefore, this study is aimed at examine the factors that affect financial reporting quality in the pharmaceutical companies in Nigeria. In pursing this objective a sample of ten pharmaceutical were chosen for the study.

1.1 Objectives of the Study.

The major objective of this study is to evaluate the factors that affect financial reporting quality in the pharmaceutical sector. In an effort to archive the major objective, the following specific objectives will be critically examined.

i) To determine the extent to which human capital of company affect FRQ
ii) To examine the effect of profit after tax on FRQ.
iii) To ascertain the impact of Leverage of the company of FRQ.
iv) To determine if the Age of Company affect FRQ.
v) To find out if total assert of the company affect FRQ.
vi) To investigate if total sum of equity of the company affect FRQ.

1.2. Research Questions.

The following research question has been raised to enable the research purse the above objective.

i) To what extent does Human Capital affected FRQ?
ii) What influence does Profit after tax have on FRQ?
iii) How does leverage affect FRQ?
iv) Do Age of company affect FRQ
v) To what extent do total asset of the company affect FRQ
vi) What influence has total sum of equity of the company on FRQ?

1.3 Research Hypothesis.

i.) Human capital does not significantly affect FRQ.
ii.) Profit after Tax has no significant relationship with FRQ.
iii.) Leverage do not positively affect FRQ
iv.) Age of company has no significant with FRQ.
v.) Total asset does not has any significant effect on FRQ,
vi.) Sum of equity of the company does not affect FRQ.

2.0 Literature Review.

2.1 Conceptual Review.

Quality according to Afiah & Rehmatika (2014) is degree to which a set of inherent characteristics fulfils requirement. Quality according to them is generally define as the totality of features and inherent or assigned characteristics of a product, person process service and /or system that bear on its ability to show that it meets expectation of statistics stated need requirement or specification.

The Financial statement is statement in the reporting entity. A financial statement component is a form of financial management accountability over period. Common purpose being to provide useful information that meets the needs of the user. IFAC (2010). Financial reporting quality is the process by which financial reporting conveys information about a firms operations and its fanatical position to the General users. According to Akeju & Babatude (2017) the financial reporting quality encompasses are both financial information and non-financial information useful for decision making included in the financial report.

IASB(2010) opined that useful information on reporting entity that is valuable to equity investors(present & Potential) leaders and other stakeholders in making decision in their capacity as capital providers and stakeholders. Hence the higher the information usefulness of the financial report the higher the quality of Financial report and visa visa.

2.2 Theoretical Framework.

2.2.1 **Legitimacy theory**

According to Toukabri, Bens and Julani (2014) the theory of legitimacy is based on two fundamental, companies need to legitimize their activities, and the process of legitimacy that benefits to business. Thus, the first element is compatible with the idea that social disclosure is related to the social pressure. In this context, we say that the need for legitimacy is not the same for all companies due to the degree of social pressure to which the company is exposed, and the level of response to this pressure.

There are a number of factors that determine the degree of social pressure on companies, and responses to that pressure. These factors are potential determinants of corporate social disclosure. The second component is based on the idea that companies can expect to benefit by a legitimate behaviour based on the social responsibility activity.

Normally the legitimacy theory is used to social and environmental reports disclosure. But the legitimacy theory can be used in corporate report, suggested by Woodward, Edwards and Brikin (1996), as one possible legitimacy/accountability reporting framework, to communicate with the shareholders and clarify the importance of this relationship. Damaso and Lourenco (2011), has concluded that the organizational legitimacy is a useful concept to explain corporate report behaviour.

2.3 Empirical Review.

Ahmadi, Valipour & Zara'atKish(2021) Investigated factors affecting Financial and non-Financial reporting of the environmental in Gachsaran oil and gas exploration company. The study made use of 83 manages and financial expects using research questionnaires using the following indication debt management, cost management social component environmental advocates company manages investors. Result showed that these indices have effect on financial reporting both on financial and non-financial reporting.

Tessema (2021) studied the factors that affect quality of financial reporting in the commercial Banks of Ethiopia. The study used explanatory research design and quantitative data collected through the annual financial report of 17 commercial banks over a period of 2014-2019. The study find out that firm leverage, firm profitability ownership structure and IFRS adoption has positive influence on financial reporting quality of commercial banks in Ethiopia.

Seiyaibo & Okoye(2020) Investigated the determinate of financial reporting quality in quoted manufacturing firms: Nigeria Evidence. The study made use of expost facto design; with a population of 54 manufacturing firms quoted on the Nigeria stock exchange. Judgemental sampling techniques were used to select forty eight manufacturing firms. While Jarque Bera normality test correlation and ordinary least square were used for data analysis. The study revealed that a positive and significant relationship exit between the board size and firm financial reporting quality. The study further revealed that firm size, board independence, institutional ownership and growth opportunity as financial reporting quality indicator have no significant effect on financial reporting quality.

Omoregie& Eromosele(2020) studied factors affecting financial reporting quality in Nigeria public sector. The study made use of 150 copies of likert-scale questionnaire, which were administered to civil servants. It was analysis with the aid of ordinary least square regression techniques; the study revealed that internal control has a significant negative relationship with financial reporting. Public account committee effectiveness has a significant negative relationship with financial reporting quality, stringent penalty for financial misconduct has an insignificant negative relationship with financial reporting quality and adoption of IPSAS has a significant position relation relationship with financial reporting quality in Nigeria public sector.

Abebaw(2020) carried out a research on factors affecting financial reporting quality of business firms in Debre Markos Town. The research adopted mixed method approach by combining data gathering instruments of research questions, in-depth interviews and documents analysis. They were analysed using descriptive statistics, correlation and logistic regression analysis. The study found out that financial reporting quality is significantly and positively influenced by information Technology, regulatory enforcement and audit trend were positively and strongly correlated with financial reporting quality, it further suggest that improving usage of information technology , make frequent audit and maintain regulatory enforcement help to improve their financial reporting quality.

Dachi, Erlina & Bukit(2020) made a study of analysis of factors affecting the quality of financial statement using information technology as a moderated variable in the Government of South Nias Region. The population of the study was 28 regional apparatus organisation founded in the regency government of southern Nias. A total of 105 questionnaire were collected and analysis using SEM method, The result of the study indicate that human resources competence does not affect the quality of financial statements, while the internal control system has a significant positive effect on the quality of financial statement. The study further said that utilization of information technology is not able to weaken the effect of human resource on quality of financial statements while the use of information technology is able to weaken the effect of internal control system on the quality of financial statement in the South Nias,

Kwanbo (2020) Examined the determinant of financial reporting quality of Nigeria stock exchange NSE Lotus Islamic index L11. Panel data approach was used to extract information from annual report and accounts of the companies, why multiple regressions aided the analysis. Finding revealed that internal control system; control environment, external audit independent and liquidity are not significant related to financial reporting quality, while leverage and profitability does. The study recommends security and exchange commission SEC and Finical reporting council of Nigeria FRCN to sustain their effort of ensuring quality financial reporting in Nigeria.

Hernando & Wiralestari(2020) studied the factors affecting the quality of MSME financial reporting (Micro ,Small and Medium Enterprises). The study made use of 98 MSME in Jambi city, a validity test using Pearson corrections was used. The result of the study was Human recourses company characterises and utilization of information technology has significant effect on the quality of financial reporting.

Haliah(2018) Examined the determinant factors of quality of financial statement and performance of the government by adding contextual factors such as personal factor. System/administrative factor and political factor. The study made use of explanatory survey with quantitative approach. The population of the study was proxy to the regional unit organisation in south Sulawesi purince Government consisting of 803 units of Local Government Agencies. The study finds out that personnel factors competence, system/administration factor and political factors competence affect financial statement quality.

Asegdew(2016) studied determinate of financial reporting quality evidence from large manufacturing share companies of Addis Ababa they study made use of documentary analysis of companies, audited financial statement and indebt interview with directors of manufacturing firms. Using random sampling of 14 companies were selected for the study for a period of Five years (2010-2014) the study made use of panel least square regression analysis which shows that firm profitability, type of audit, share dispersion have statistically significant and positive relationship with financial reporting quality of manufacturing firms, while firm size has a negative and statistically significant relationship with manufacturing share companies. The study suggests that employing large audit firms will improve the quality of information produced and also large firm size is considered respectively.

Afih & Rahmatika (2014) did a research on Factors influencing the quality of financial reporting and its implication on good governance. The made use of 70 working unit areas device on 7 local Government in Indonesia. The data used was panel data collected through questionnaire. The data was processed using partial least square. The result revealed that apparatus competence has significant effect on financial reporting quality.

3.0 Research Method.

3.1 Research Design

The research design adopted in this study is cross sectional survey which involves a survey of existing data (secondary data)

3.2 Method of Data Collection and techniques of Analysis.

Time series annual Data was employed ranging from 2011-2020 with a sample 10 pharmaceutical companies. The research instruments used in collection of data for this study were mainly secondary data from NSE website and annual reports published by the pharmaceutical companies selected.

Descriptive and inferential statistics were used to analyse the data for the study. Also multiple regression and t-test statistical tools were used to test the hypothesis formulated in the study.

3.3 Model Specification.

This study used the econometric technique of ordinary least square (OLS) inform of multiple Linear Regression.

The Mathematical Model for the study is as follows.

FRQ= + (PAT, LA, AC, TA, HC &TS).

FRQ – Financial Reporting Quality

PAT – Profit after Tax

LA - Leverage of Company

AC - Age of the Company

TA – Total Asset of Company

HC – Human Capital

TS – Total Share of Equity of the Company.

Mathematical specification

$$Yi=b0+b1+X1+b2X2+b3X3+b4X4+b5X5+b6X6+e$$

Were Yi= Financial reporting quality

X1= Profit after tax

X2= Leverage of the company

X3=Age of the Company

X4=Total Asset of the company

X5= Human Capital

X6= Total share of Equality of the company

Bo = the parameter which represent the intercept b1, b2, b3, b4, b5, b6 = the regression parameter used in deterring the significance of the impact of each of the independent or explanatory variable Y1.

E= Random disturbance term.

4.0 RESULTS AND DISCUSSIONS

The study examined the factors affecting financial reporting quality include the following variables. The factors affecting financial reporting quality includes; profit after tax (PAT), leverage, age, total asset (TA), human capital (HC) and total shares (TS) while financial reporting quality was measured using accruals. Multiple regression analysis was conducted and the result is presented below.

Regression analysis on factors affecting financial reporting quality

Dependent Variable: FRQ
Method: Least Squares
Date: 02/22/23 Time: 12:51
Sample: 1 100
Included observations: 95

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.11182	2.455394	6.561807	0.0000
PAT	-0.379545	0.138740	-2.735646	0.0075
LEVERAGE	0.833950	0.539140	1.546816	0.1255
AGE	-8.655359	1.660148	-5.213608	0.0000
TA	0.291760	0.096883	3.011482	0.0034
HC	0.177005	0.196484	0.900865	0.3701
TS	-0.100281	0.174679	-0.574086	0.5674

R-squared	0.317074	Mean dependent var	5.062482
Adjusted R-squared	0.270511	S.D. dependent var	0.854309
S.E. of regression	0.729666	Akaike info criterion	2.278369
Sum squared resid	46.85231	Schwarz criterion	2.466549
Log likelihood	-101.2225	Hannan-Quinn criter.	2.354408
F-statistic	6.809561	Durbin-Watson stat	0.611511
Prob(F-statistic)	0.000006		

Table 4.1, presents the regression result between PAT, LEVERAGE, AGE, TA, HC, TS and FRQ. From the model summary table above, the following information can be distilled.

The R^2 which measure the level of variation of the dependent variable caused by the independent variables stood at 0.317074.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 (PAT, LEVERAGE, AGE, TA, HC and TS). Thus the R^2 value of approximately 0.317 indicates that 31.7% of the variation in the FRQ of pharmaceutical firms can be explained by a variation in the factors affecting financial reporting quality while the remaining 68.3% (i.e. 100-R^2) could be accounted by other factors not included in this model.

The adjusted R^2 of approximately 0.271 indicates that if other factors are considered in the model, this result will deviate from it by only 0.046 (i.e. 0.317 – 0.271). This result shows that there will be a further deviation of the variation caused by the independent factors to be included by 2.5%.

The regression result as presented in table 4.1 above to determine the relationship between PAT, LEVERAGE, AGE, TA, HC, TS and FRQ shows that when all the independent variables are held stationary; the FRQ variable is estimated at 16.11182. This simply implies that when all independent variables are held constant, there will be a decrease in the FRQof pharmaceutical firms up to the tune of 16.11% occasioned by factors not incorporated in this study. Thus, a unit increase in PAT will lead to a decrease in FRQ by 0.37945%. A unit increase in Leverage will lead to an increase in FRQ by 0.833950%. Furthermore, a unit increase in AGE will lead to a decrease in FRQ by 8.655359%. Also, a unit increase in Total Asset will lead to an increase in FRQ by 0.291760%. A unit increase in Human Capital will lead to an increase in FRQ by 0.177005%. Also, a unit increase in Total Shares will lead to decrease in FRQ by 0.100281%.

Finally, the result shows that there is significant variation of Fisher's statistics (6.809561) at 0.00006 which means the model as a whole is statistically significant at an autocorrelation level of 0.611511 (Durbin-Watson).

***HO**: Profit after tax, leverage, age, total asset, human capital, total shares have no significant effect on financial reporting quality of pharmaceutical firms in Nigeria.*

Since the calculated probability value of 0.0006 is less than the accepted probability value of 0.05. The null hypothesis is rejected and the alternative accepted thus; profit after tax, leverage,

age, total asset, human capital, total shares have a significant effect on financial reporting quality of pharmaceutical firms in Nigeria.

The finding is consistent to the findings of Pagalung (2009) and Hidayat & Elisabet (2010) which revealed that The longer life of the company causes the company can be historically valued as having demonstrated fairness in delivering its financial statements and has stability in its performance so that the company's age has a significant effect on the quality of the company financial reporting. The older the age of the company, the less variability of discretionary accruals, so that the effect on the quality of financial reporting will be high. The results of research by Pagalung (2009) and Hidayat & Elisabet (2010), showed that the age variable had a significant effect on the quality of corporate financial reporting. Consequently the Larger companies size have the higher quality financial reporting (Hidayat & Elisabet, 2010). The size of the company can affect the quality of financial reporting because it has the ability to diversify business portfolio effect variations and high political costs (Fanani, 2009). Nurwulandari & Saripujiana Research Results (2015), succeeded in providing evidence that company's size has a significant effect on the quality of financial reporting. This influence shows that the larger the size of the company, the higher the quality of financial reporting information. This supports previous research from Pagalung (2009) and Fajri (2013), which is that company size variables have a significant influence on the quality of financial reporting.

5.0 Conclusion and Recommendation

The paper examined the factors affecting financial reporting quality of Pharmaceutical companies in Nigeria. Findings revealed that the Age of the company affect financial reporting quality in that the higher the life of the company the more the company can be historically valued as having stable in Performance, the size of the company also affect it in that the larger the company size the higher the quality this also applies to the other variables such as Profit after tax, Human Capital cost, Total assert, Leverage etc.

The study hence forth recommend as follows

They should maintain a good level of their efficiency by expanding their business through opening more branches and expansion of production line,

Since leverage was found as one of the factors that affect financial reporting quality, it is advise that debt obtained from outsides should be managed effectively in order to drive positive financial report. –Farouk, M.A.(2019)

Since total assert affect the financial reporting quality of pharmaceutical firms it is an evidence that the level of total asset as adverse consequences of financial reporting therefore firms under this study should pay attention on managing their asset to improve the reporting quality.

REFERENCES

Abebaw, A.W. (2020) Factors affecting financial reporting quality of Bunnies Firms in Debre Markos Town. Research Journal of finance and Accounting vol11 no.13.

Afiah, N.N., & Rahmatika, D. N. (2014). Factors influencing the quality of Financial reporting and its implication on Good Government Governance. (Research on Local Government of Indionease.) International Journal of Business economic and Law Vol5 issue 1 Dec.

Ahmadi, S. M., Valipou, H., & Zara'at Kish .S. Y.(2021) Factors Affecting financial and Non-financial reporting of the Environment in Gachsaranal and Gas exploitation Company. PalArch's Journal of Archaeology of Egypt.

Akeju, J.B.,& Babatunde, A.A. (2017) Corporate Governance and financial reporting quality in Nigeria. International Journal of Information Research& Review 4(2) 3750-3754.

Awodiran, M.A. &Ogundele A.T. (2022) Determinants of Financial reporting quality Evidence from listed industrial goods firms in Nigeria. Academy of Accounting and financial studies Journal 26(s5)1-08.

Dachi, Ar I, Evlina & Bukit, R.B.(2020) Analysis of factors affecting the quality of Financial statement using information technology as Moderated variable in the context of the south Nias Regency. International journal of Budgeting, Accounting and Finance.

Damason,M., &Lourenco,I. (2011) Legitimacy Theory and Internet Finance Reporting.
Financial Accounting Standard Board(2010) Statement of fincil Accounting ConceptsNo8 conceptual Frame work for Financial Reporting Norwalk www.fasb.org.

Hernando,R.& Wirlestari() Factors affecting the quality of MSME financial Reporting. Faculty of Economics and Business University of Jabi(Research Grant.

IASB(2010) Exposure Draft on n improved conceptual framework for financial Reporting: The Objective of Financial Reporting and Qualitative characteristics of Decision useful financial Reporting information. London.

International Federation of Accountant (IFAC) 2010 . IFAC Handbook of international Public sector Accounting Pronouncement (2010ed vol 1-2).

Kothari, S.P., Li, & Shout, J.E. (2009). The effect of disclosures by management analysts and Financial press on the equality cost of Capital. A study using Content analysis. The Accounting Review, 84, 1639-1670. 10.2308/accr.2009. 84.5 1639.

Kwanbo, M.L.(2020) Determinants of Financial Reporting quality of Nigeria Stock Exchange NSE lotus Islamic index LII. International Journals of Audit and Accounting studies 2(1) 95-106.

Nirwana & Haliah(2018) Determinant of factor of the quality of financial statement and performance of the Government by adding contextual factors. Asian Journal of Accounting Researchvol.3 no1 28-40.

Omoregie, N.A.E., & Eromosele, U. J. (2020) Factors affecting financial reporting quality in Nigeria Public sector. International journal of Social science and Economic Research. Vol 15 issue 5.

Pounder, B. (2013) Measuring accounting quality, strategic Finance magazine , May 2013.

Seiyaibo, C.M.,& OKoye, E.I.(2021) Determinant of financial reporting Quaintly in quoted Manufacturing firms: Nigeria Evidence. Trends Economics and management 36(2) 59-72

Soyemi, K.A., & Olawale, L.S. (2019) Firm Characteristics and Financial Reporting quality evidence from Non- Financial firms in Nigeria. International Journal of Economics, management and accounting 27(2) 445-472

Tessema, B.T.(2021) Factors that affect quality of financial reporting in The commercial Banks of Ethiopia. Msc Thesis submitted to Department of Accounting and Finance Addis Ababa University Ethiopia.

Toukabi,M.,Ben,O.& Jilani,F(2014) Corporate social Disclosure. Explanatory Theories and Conceptual frame work .*International Journal of Academic Research in Management 3(2)208-225.*

Fanani, Zainal. 2009. KualitasPelaporanKeuangan: BerbagaiFaktorPenentudanKonsekuensi Ekonomis. JurnalAkuntansidanKeuangan Indonesia. Volume 6, No. 1, pp. 20-45.

Fajri,SriNurul.2013.PengaruhUkuranPerusahaan, StrukturKepemilikandanKonsentrasiPasarTerhadapKualitasLaporanKeuangan. ArtikelSkripsi. Padang: Program StudiAkuntansiUniversitasNegeri Padang.

Hidayat,Widi dan Elisabet. 2010. Faktor-faktor yang MempengaruhiKualitasPelaporanKeuanganpada Perusahaan Manufaktur yang Go Public di Indonesia. JurnalEkonomi. Volume 1, No. 1, pp. 1-32.

Nurwulandari, DewiPutri Dan Saripujiana, Dian. 2015. Faktor-Faktor Yang MempengaruhiKualitasPelaporanKeuangan: StudiKasusIndeks Lq45 Yang Terdaftar Di Bursa Efek Indonesia. Artikel / Jurnal Program Studi S-1 Akuntansi.

Pagalung, Gagaring. 2009. The Determinant Factors Of Earnings Quality And Economic Consequences. JurnalEkonomidanKeuangan. Volume 16, No. 1, pp. 105-122.

Purwanti, Titik. 2010. AnalisisPengaruhVolatilitasArusKas, BesaranAkrual, VolatilitasPenjualan, Leverage, SiklusOperasi, Ukuran Perusahaan, Umur Perusahaan, danlikuiditasTerhadap.