IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 21, Issue 7. Ser. VII (July. 2019), PP 38-47
www.iosrjournals.org

Firm Structure and Quality of Financial Reporting In Nigeria

Adekunle, Dada Surajudeen[1], Akomolafe, Johnson Adewale[2],
Olusesi, Hakeem Olalekan[3]

[1]*Department of Accounting Ogun State Institute of Technology, Igbesa,Ogun State, Nigeria*
[2]*Department of Accounting Ogun State Institute of Technology, Igbesa,Ogun State, Nigeria*
[3]*Department of Accounting Ogun State Institute of Technology, Igbesa,Ogun State, Nigeria*
Corresponding Author: Adekunle, Dada Surajudeen

Abstract: *The quality of financial report is very crucial as published financial reports remains, for the most part, the only means by which outside shareholders and investors keep themselves informed about the performance of the firm. In the present of economic scenario, this concern for financial reporting quality becomes more acute as emerging market economies and more importantly mono economics like Nigeria face greater uncertainties as they combat the challenges of unprecedented fall in the oil prices. In addition to this, the suspension of the CEO, chairman and two others directors of Stambic IBTC bank by the financial reporting council of Nigeria for filling a misleading financial statement for 2013 and 2014 has also shown that the issue of financial reporting quality cannot be overemphasized. Using secondary data from the published reports of thirteen listed deposit money banks in Nigeria for over a period of 13 years between 2005 and 2017, this paper seeks to find 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 quality. Using prior studies as a guide, we developed model for loan loss provisions and granted the residuals, using these residuals known as abnormal 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, diversification and financial reporting quality.*

Keywords: *Abnormal Loan Loss Provisions, Financial Reporting Quality, Firm Age, Firm Diversification, Firm Leverage, Firm Size, Loan Loss Provisions, Structural Characteristics.*

Date of Submission: 18-07-2019 Date of acceptance: 03-08-2019

I. Introduction

Financial reporting can be described as the process of communicating of an enterprise to the external world. It is use of publish financial statements and related tools in communicating financial information of a business enterprise to third party (external users) including shareholders, creditors, customers, governmental authorities and the public (Maharshi, 2004). Financial reporting is a communicating system that involves the management of the firm as the preparer, the investors and creditors as primary users, and other secondary users such as the government authorities and the general public. However, it is not always true that management normally present the true picture of the financial position of the enterprise. The recent suspension in 2015 of the CEO, chairman and two other directors of stanbic IBTC bank by the financial re[porting council of Nigeria for filling a misleading financial statement for 2013 and 2014 has validated this and also shown clearly that regulators are now taking the issue of financial reporting quality seriously.

Research Gap and Objectives

The motivation for this study is in line with the concerns raised by the general public about the quality of the financial statement of firms in Nigeria, especially in the banking industry where several reforms of the central bank of Nigeria (CBN) have shown that many deposit money banks (DMB) have been "cooking" their books. Some of the banks that failed in the 2009 CBN reforms had shown strong positive fundamentals in previous financial years. The general argument has been that if the financial reports are anything to go by, those banks should not have been declared illiquid with low capital adequacy ratio by the CBN. The 2009 CBN reforms in Nigeria revealed that nine listed deposit money were illiquid with low capital adequacy ratio in variance to the disclosure in their previous financial report.

The main objective of the study is to assess the impact of firm characteristics on the quality of financial reporting in listed deposit money banks in Nigeria. To determine the effect of the size of listed DMBs in Nigeria on the quality of their financial reports, to examine the impact of debt financing on financial reporting quality of listed DMBs in Nigeria and to evaluate the relationship between financial reporting quality and the age of listed

deposit money banks in Nigeria are the specific objectives that will assist to achieve the main objective of the study. Further, the study hypothesized that there is no significant relationship between firm age, firm size, leverage and financial reporting quality of listed DMBs in Nigeria.

Research Hypothesis

1. There is a significant relationship between firm size and financial reporting quality of listed deposit money banks in Nigeria
2. There is a significant relationship between leverage and financial reporting quality of listed deposit money banks in Nigeria
3. There is a significant relationship between firm age and financial reporting quality of listed deposit money banks in Nigeria.

II. Literature Review

Characteristics of a firm which makes them qualified as a firm is: Leverage, Liquidity, Size; Age and Diversification, They have influence on the firms' financial performance and growth. These characteristics can be easily measured by using available data that are captured in the financial statement of firm characteristics. Some of the most influential characteristics in organizational structure are:

Firm Size: Chen & Hambrick (1995), Mintzberg (1979) reviewed the importance of firm size; Firm size is related to industry- sunk costs, concentration, vertical integration and overall industry profitability. Larger companies are more likely to have division of management, higher number of departments, increased specialization of skills and functions, greater centralization and greater bureaucracy than smaller companies (Daft, 1995).

Firm diversification: This is a corporate strategy stipulated to increase sales volume from new products and new markets and thereby increase the financial report of the organisation. Many researchers have studied the relationship between firm diversification and performance. Hoskisson & Hitt (1990), and Ramanujam & Varadarajan (1990), have carried out excellent surveys, analyses, and critiques of previous findings. The observation is that there seem not to be any consistent or conclusive findings between firm diversification and performance. Stimpert & Duhaine (1997), argue that the inconsistencies are due to the fact that the diversification impacts other variables, which in turn determines firm performance. Since firm size and diversification are positively correlated (Daft, 1995), the arguments about inertia and constraints on action related to firm size could also apply to diversification.

Firm leverage: This is the extent to which a company uses fixed-income securities, such as debt and preferred equity. With a high degree of financial leverage come high interest payments. The trade-off between agency costs of debt and equity (Jensen & Meckling, 1976); the limited liability effect of debt Brander & Lewis, (1986); and the disciplining effect of debt (Grossman & Hart, 1983; Jensen, 1986) all suggest a positive effect of leverage on performance. Bolton and Scharfstein, 1990; Chevalier & Scharfstein, 1996; Dasgupta & Titman, 1998; suggest that leverage reveal the opportunities for rivalry predation in concentrated product markets, thus conditioning the performance effect of leverage on the degree of competition in the Corporate establishment industry.

Companies with more liquid assets are less likely to fail because they can realize cash at the time of need thus outperforming those with less liquid assets. Browne (2001) found evidence supporting that performance is positively related to the proportion of liquid assets in the asset mix of a company. Higher liquidity allows a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings (Liargovas, & Skandalis, 2008).

Aging: Is a process associated with a general decline in the physical functioning of the human body, such as the ability to remember, react, move and hear. By analogy, firms should weaken over time and lose their ability to compete. If performance declines as firms grow older, it could explain why most of them are eventually taken over Loderer, Neusser, & Waelchli, (2009).

Age could actually help companies become more efficient. Over time, firms discover what they are good at and learn how to do things better. Arrow, 1962, Jovanoic, 1982, Ericson & Pakes, 1995). Firms specialize and find ways to standardize, coordinate and speed up their production process, as well as to reduce costs and improve quality. Older firms may also benefit from reputation effects, which allow them to earn a higher margin on sales.

Financial statements are statements that revealed the performance and asset viability of every firm. It may appear similar from country to country, there are differences which have probably been caused by a variety of

social, economic and legal circumstances and by different countries having in mind the needs of different users of financial statements when setting national requirements. These different circumstances have led to the use of a variety of definitions of the elements of financial statements: for example, assets, liabilities, equity, income and expenses. They have also resulted in the use of different criteria for the recognition of items in the financial statements and in a preference for different bases of measurement.

IASB and Financial Reporting

The International Accounting Standards Board is committed to narrowing these differences by seeking to harmonize regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. It believes that further harmonization can best be pursued by focusing on financial statements that are prepared for the purpose of providing information that is useful in making economic decisions.

The Board believes that Financial Statements prepared for this purpose meet the common needs of most users. This is because nearly all users are making economic decisions, for example:

(a) To decide when to buy, hold or sell an equity investment.
(b) To assess the stewardship or accountability of management.
(c) To assess the ability of the entity to pay and provide other benefits to its employees.
(d) To assess the security for amounts lent to the entity.
(e) To determine taxation policies.
(f) To determine distributable profits and dividends.
(g) To prepare and use national income statistics.
(h) To regulate the activities of entities.

The Board recognizes, however, that governments, in particular, may specify different or additional requirements for their own purposes. These requirements should not, however, affect Financial Statements published for the benefit of other users unless they also meet the needs of those other users. The main objective of the study is to scrutinize the impact of structural characteristics on the quality of financial reporting in money deposit bank in Nigeria. To determine the effect of the Firm Size, Firm Diversification, Firm Age and other firm characteristics of some money deposit bank in Nigeria on the quality of their financial reports, to examine the impact how firms' finance their debt on financial reporting quality in Nigeria and to evaluate the relationship between financial reporting quality and Firm Size, Firm Diversification, Firm Age and other firm characteristics in Nigeria.

Empirical Review

Some specific factors such as firm size, liquidity, operating efficiency, firm growth, diversification, aging and leverage were considered as constituents of firm characteristics variables. Thus, the empirical review of literature specifically focuses on how these attributes have influenced the quality of financial reporting of firms as determined by those studies.

Safdar, Hazoor, Toheed and Ammara (2013) studied the impact of firm's characteristics on stock value of non-financial listed companies in Pakistan. Data of 307 non-financial companies listed on the Karachi Stock Exchange (KSE) were collected from the B-Recorder and Basic Balance Sheet Analysis (BBA) issued by the State Bank of Pakistan for the period 2000 to 2012. Market Capitalization (MC), Sales Growth (SG), Earnings Per shares (EPS) were taken as independent variables and stock price as the dependent variable. The MC and SG (independent variables) were used as proxies for size effect. Correlation Matrix, Multiple Regression Analysis, Unit Root Test and Granger Causality were used for the analysis of data. Results revealed that MC and EPS had positive significant impact while sales growth had positive insignificant impact on firm value.

Muneesh & Sanjay (2004), examined the relationship between company characteristics and common stock values using the data from the Indian Stock Exchange. The data consist of adjusted month-end share prices for 364 companies from July 1989 to March 1999. The sample companies account for a major pattern of market capitalization and daily trading volume on the Indian Stock Market. The results showed that firm size had positive significant impact on stock value. Panu, Peng & Dennis (2007), investigated the relationship between firm characteristics and stock value. The general findings are that certain firm characteristics do have an effect on stocks values; among these characteristics, is the firm size.

Ulil, Bambang, Djumahir & Gugus (2013) examine the effect of firm characteristics, which include size, firm age, profitability and firm growth on the governance quality and its impact on firm value. The results reveal that there is positive effect of firm characteristics on quality of governance, which in turn affect firm value. Impliedly, firm characteristics have positive and significant impact on the value of firms. Li-Ju and Shun (2011) studied the influence of profitability on firm value using Taiwanese listed companies from 2005 to 2009 as the research objects. After the deletion of the incomplete data, they arrived at a total of 647 samples, including 302 companies categorized as belonging to the electronic industry and 345 companies belonging to

other industries. The result shows that profitability has a significant positive influence on firm value. This indicates that the greater the profitability, the higher the value of the company.

Shafana, Fathima and Inun (2013), investigated the behavior of expected stock values with respect to two popularly known firm level characteristics, firm size and book-to-market equity in Sri Lankan context. The sample of the study consisted of 12 companies out of total 25 companies listed on Milanka Price Index in base year of 2005 on Colombo Stock Exchange for the period from 2005 to 2010. Empirical findings reveal that firm size hasinsignificant positive effect on expected stock values.

Hedander (2005) examined the effect of liquidity and firm value, using a panel data of 39 non-listed Australian firms for the period of 1992 to 2003, and found a significant positive relationship among the variables of the study. Cheung, Chung and Fung (2012) too investigated the impact of stock liquidity, corporate governance and firm performance of US real estate investment trust for the period of 1992 to 2008; the results of their analysis showed a negative significant impact of liquidity on firms‟ financial performance. But they failed to mention their statistical tool of analysis in their research report.

Hausen and Sungsuk (2013) investigated the influence of stock liquidity to firm value in Indonesian Stock Market, and reported that high liquidity firm can generate high operating 41profit. The study of liquidity is of importance to both internal and external users of accounting information, because of its relationship with the day-to-day operations of firms. Reheman and Nasr (2007) viewed liquidity management as a desired trade-off between liquidity and profitability of a firm. Owolabi and Obida (2012) examined the relationship between liquidity management and corporate performance of listed manufacturing companies in Nigerian Stock Exchange for the period of 2005 to 2009, using a sample of 12 manufacturing firms. The result of their findings showed a significant impact of liquidity management on corporate financial performance.

An empirical study was conducted on the impact of liquidity ratios on profitability of Pakistan oil and gas companies by Saleem & Rehman (2011). The results showed that there is significant impact of liquidity ratios on financial performance. The required liquidity for each company depends on the statement of financial position situation of the firm. (Saleem & Rehman 2011).

III. Methodology

Corelational research design with a positivism paradigm in line with (Huang, Rose-Green, & Lee, 2012; Shehu 2013; Shehu & Ahmad, 2013; Waweru & Riro, 2013) was employed. A corelational research design is very appropriate for this study because it is used to describe the statistical association between two or more variables. The use of this design will allow for the testing of expected relationships between and among variables and the making of predictions regarding these relationships (Shehu, 2013). The population for this study is the listed deposit money banks in Nigeria as at 31st December 2017 as displayed on the website of the CBN. Out of these fifteen listed DMBs, Sterling bank and Unity bank were filtered out, as data for 2005 and 2006 were not available for both banks. The remaining thirteen banks were therefore used for this study. The justification for using the entire thirteen listed deposit money banks with complete data and not just a sample is because the entire population is not more than thirteen and using a census rather than a sample will improve the robustness of the data.

Data Collection and Analysis

The data used for this study was secondary data derived from financial statements of the listed deposit money banks in the Nigerian Stock Exchange (NSE) between the thirteen year period of 2005 and 2017. All companies listed on the NSE are required by law to submit financial report to the exchange every quarter. The information provided in these financial statements can be taken as reliable and comparable (Farroque, Ziji, Dunstan, & Karin, 2007). Balanced panel data regression analysis was used in testing the three hypotheses while the Statistical Package for Social Science (SPSS) was employed for the data analysis. Asokan, Iftekhar & Cornelia (2007) reported that most listed banks in Australia uses Loan Loss provisions to aggressively manage earnings, furthermore, Dabor & Ibadin (2013) used Abnormal Loan Loss Provisions (ABLL) as a proxy for earnings management where ABLL was measured as a modification of (Kanagaretnam, Krishnan, & Lobo, 2010). Because loan loss provision is unique to the banking sector, it is expedient to use abnormal loan loss provision in this study. The advantage of this method is that it is relatively easy to collect data in order to measure earnings management. The drawback however, is that earnings figures are just a part of the whole financial report and hence an indirect measure of reporting quality (Van Beest, Braam, & Boelens, 2009). Despite this drawback, the framework for financial reporting (1989) has established that the most important aspect of financial report is the information on the entity's financial position and financial performance. This implies that the relevant aspect of the financial report to the primary users is the earnings figures, and once these figures have faithfully represented what it purports to represent. The primary qualitative characteristics of financial report would have been established (FASB, 2010). Hence, we observed that the determinants and consequences of abnormal accruals have received the most attention in previous studies. This tends to validate

accrual models by showing that the abnormal accrual is correlated with hypothesized predicted determinants or consequence of abnormal accruals (Dechow' & Ge, 2006). McNichols (2000) argued that the specific accrual model is the most appropriate for studies that are focused on industry settings in which a single accrual is sizable and requires substantial judgment. In line with Dabor & Ibadin (2013). Financial reporting quality is represented by abnormal loan loss provision which has been posited to be a function of structural variables (McNichols, 2000). This can be presented as follows;

$$FRQ = \int (FSize, FAGE, LEV) \quad .(i)$$

Since it is believed that there are also other variables that act as determinant for financial reporting quality, board size, board independence, board gender mix and managerial shareholding were introduced as control variables. Hence,

$$FRQ = \int (FSize, FAGE, LEV, BSIZE, INDIR, FDIR, MS, IS) \quad (ii)$$

With the aid of the second equation we can arrive at our model which is presented as follows;

$$FRQit = ß0it + ß1FSIZEit + ß2FAGEit + ß3LEVit + ß4BSIZEit + ß5INDIRit + ß6FDIRit + ß7MSit + eit \quad (iii)$$

Where; FRQ = Financial Reporting Quality, ß0 is the intercept, ß1-7 is the coefficient of the independent variables, FSIZE = Bank size which is measured as the asset size, FAGE = The age of the bank measured as the year of incorporation; LEV = Leverage measured as the percentage of debt financing of the firm; BSIZE = The size of the board measured as the number of board members, INDIR = Board Independence measured as the percentage of outside board members to the board size. FDIR = Percentage of female representation on the board, MS = Managerial Shareholding measured as the percentage of shares owned by top management to the total number of shares in issue, e = error term; i = firm; t = year Financial reporting quality is measured by using Abnormal Loan Loss Provision ABLL as a proxy for earnings management which is measured in line with (Kanagaretnam, Krishnan, & Lobo, 2010; Dabor & Ibadin, 2013) as;

$$LLP = \alpha 0 + \alpha 1LLAB + \alpha 2NPLAB + \alpha 3\Delta NPL + \alpha 4NBLW + \alpha 5\Delta TOTL + et \quad (iv)$$

The residual from equation four above are the abnormal loan loss provision where; NPLAB = Non- Performing Loans at the beginning, LLP = Loan loss provisions, ΔNPL = Change in Non-performing Loans, NBLW = Net Bad Loans Written Off and ΔTOTL = Change in Total Loan Loss.

Robustness Test of Reliability and Validity

A robustness test (multi-co-linearity, heteroscedasticity, cross-sectional dependence, serial correlation hausman specification and histogram test of residuals) were conducted in order to improve the validity of all statistical inferences for the study. VIF should not be greater than 10 and tolerance level 1; hence there is multi-co-linearity which means that the independent variable is related. This situation will make the F- Statistic and the R2 to be unreasonably high and hence affect the validity of the result. Durbin Watson will be used to test for serial correlation. A result of between 1.5 and 2.5 implies that there is no serial correlation. The hausman specification is what will indicate whether to interpret the fixed effect or the random effect of the chq-square. 4. Data Analysis The use of regression model to estimate the coefficient of any panel data requires the determination of whether the fixed effect model or the random effect model suits the data more appropriately (Gujerati, Porter, & Gunasekar, 2012). Fixed effect model takes into account the behavioural pattern of the firm but the random effect model does not consider the behavioural pattern of the firm. Table 1 below titled Hausman Statistics shows us the result obtained from our test.

Table 1 Hausman statistic

	coefficient			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
fsizeasset	0.0597492	0.0053911	0.0543581	0.0292088
fage	-0.0106621	0.0008114	-0.0114735	0.0044588
lev	0.2020423	0.0807311	0.1213112	0.00345292
bsize	-0.0076501	-0.0094315	0.0017814	0.0014062
boardind	0.0897275	-0.062865	0.1525925	0.0548994
femaledirt~e	0.6234811	0.4405781	0.182903	0.033868
msharehold~g	0.0003154	-0.0008628	0.0011782	0.0006817

Table I- Source: Field Work 2019

Table 1 shows that the p-value of the Hausman test is 0.0001 < 0.05. Based on the rules of Hausman Statistics which state that if the p-value of the Hausman test is less than 0.05. Level of significance, the Hausman null is not accepted while we accept the Hausman alternate. The implication of this is that the fixed effect model is consistent with the data (Gujerati, Porter, & Gunasekar, 2012). Therefore, this study adopted the fixed effect regression model.

The regression equation is reproduced as;

FRQit=ß0it+ß1FSIZEit+ß2FAGEit+ß3LEVit+ß4BSIZEit+ß5INDIRit+ß6FDIRit+ß7MSit +eit

Where; FRQ = Financial Reporting Quality, ß0 is the intercept, ß1-3 is the coefficient of the independent variables that are to be estimated, ß4-7 is the coefficient of the control variables FSIZE = Size of firm i in year t, FAGE = The age of firm i in year t, LEV = Leverage of firm i in year t, BSIZE = The size of the board of firm i in year t ,INDIR = Board Independence of firm i in year t, FDIR = Percentage of female representation on the board of firm i in year t, MS = Managerial Shareholding of firm i in year t, e = error term; i = firm, t = year

Table 2

Fixed effects regression analysis

Fixed-effects (within) regression	Number of obs	130	
group variables: firms	Number of group	13	
R-sq: within= 0.5999	Obs per group: min	10	
Between=0.0589	avg	10	
Overall= 0.0078	max	10	
-	F(7,12)	71.88	

abll	coef.	std.Err.	t	p>t	95% (conf.interval)	
Fsizeasset	0.0597492	0.0349098	1.71	0.113	-0.0163127	0.135811
Fage	-0.0106621	0.0057577	-1.85	0.089	-0.0232071	0.0018829
Lev	0.2020423	0.2202458	0.92	0.377	-0.2778319	0.6819166
Bsize	-0.0076501	0.0037111	-2.06	0.062	-0.0157359	0.0004356
Boardind	0.0897275	0.0562009	1.6	0.136	-0.0327237	0.2121787
femaledirtobsize	0.6234811	0.1004585	6.21	0	0.4046008	0.8423615
mshareholding	0.0003154	0.0031173	0.1	0.921	-0.0064766	0.0071073
_cons	-0.2712482	0.2647532	-1.02	0.326	-0.8480959	0.3055995

sigma-u	0.36336383
sigma-c	0.06619727
rho	0.96787694

Source: Field Work 2019

Table 2 reveals a summarized p-value of 0.0000 < 0.05 significant levels indicating that the model is fit. This is further confirmed by the within coefficient of determination value of 0.5999 indicating that 59.99% of the variations within the banks are explained by the fixed effects model which contains three independent variable and 4 control variables. However, 40.01% of the variations within the banks are unexplained by the model. The table further shows that the only variable with a p-value that is significant at 0.05 significant levels is female directors on the board with 0.000 while, firm age and board size are significant at 0.1 significant levels. The table also shows that between the deposit money banks, the variations can only be explained by coefficient of determination value of 0.0589 and over all coefficient of determination value of 0.0078. The 40.01% of the unexplained variations can be attributed to other variables such as special features of these firms like managerial style, and other micro economic variables that could affect the reporting quality of the banks.

TABLE 3
Variance inflation factor

Variable	VIF	1/VIF
bsize	1.39	0.717330
lev	1.37	0.732336
fsizeasset	1.34	0.746203
fage	1.21	0.824964
boardind	1.18	0.845628
msharehold~g	1.07	0.937423
femaledirt~e	1.05	0.949486
Mean VIF	1.23	

Source: Field Work 2019

In order to assess the presence of multicollinearity, the study further conducted a multicollinearity test, using Variance Inflation Factor (VIF) and its reciprocal (1/VIF). The benchmark for VIF is that at 5%, collinearity is suspected; at over 10%, collinearity is assumed to be present. The result suggests absent of multicollinearity. This can be confirmed from the statistical result that shows all the VIF and 1/VIF are above 1 and less than 1 respectively, while the mean value of VIF is 1.23 as shown in table 3 above. All these suggest absence of multicollinearity.

TABLE 4

Source	ss	df	MS	number of obs	130	
		F(7, 122) =19,90				
Model	703007245	7	100429606	prob>F	0	
Residual	0.615815	122	0.005047664	R-squared	0.5331	
		adj R-squared=0.5063				
Total	1.3188222	129	0.010223428	Root MSE	0.07105	
	Abll Cocf	std.Err	t P>t	[95% Conf. Interval]		
Fsizeasset	0.0053911	0.0160573	0.34	0.738	-0.263959	0.037178
Fage	0.0081114	0.0002245	3.61	0	0.0003669	0.0012558
Lev	0.0807311	0.0839038	0.96	0.338	-0.0853649	0.2468271
Bsize	-0.009432	0.0021764	-4.33	0	0.137399	-0.0051232
Boardind	-0.062865	0.0638198	-0.99	0.327	1.892026	0.0634726
Femaledirorbsize	0.4405781	0.0411848	10.7	0	-0.3590486	0.5221076
Mshareholding	0.0008628	0.0050157	-0.17	0.864	-0.0107919	0.0090662
_cons	0.0489137	0.1900409	0.26	0.797	-0.3272912	0.4251186

Source: Field Work 2019

Table 4 reveals a summarized p-value of 0.0000 < 0.05 significant levels indicating that the model is fit. This is also further confirmed by the coefficient of determination value of 0.5331 indicating that 53.31% of the variations are explained by the model which contains three independent variable and 4 control variables. The unexplained 46.69% of the variations is attributable to the error term of the model.

IV. Interpretation of Regression Results

The regression result is interpreted below base on each hypothesis stated in their null form using table 2 above. The first hypothesis states that there is a significant relationship between firm size and financial reporting quality of listed deposit money banks in Nigeria. From Table 2 above, a p-value of 0.113 suggests that we fail to reject the null hypothesis. Even though there is a positive relationship of 0.5975 with abnormal loan loss, the relationship is not significant at 0.5% level of significance. Hence we conclude that there is no significant relationship between firm size and financial reporting quality of listed deposit money banks in Nigeria. It should however be noted that a positive relationship with abnormal loan loss implies a negative relationship with financial reporting quality. The second hypothesis states that there is a significant relationship between leverage and financial reporting quality of listed deposit money banks in Nigeria. From Table 2, the relationship between leverage and financial reporting quality of listed deposit money banks in Nigeria is put at 0.2020 however; this is also not significant at a p-value of 0.377 at a 5% level of significance. The implication of this also is that we shall fail to reject the null hypothesis and conclude that there is no significant relationship between leverage and financial reporting quality of listed deposit money banks in Nigeria. The third hypothesis states that there is a significant relationship between firm age and financial reporting quality of listed deposit money banks in Nigeria. From Table 2, the relationship between firm age and financial reporting quality is a positive one since it has a negative relationship with abnormal loan loss. The extent of this relationship is put at -0.1066 at a p-value of 0.089. This is also not significant at 5% level of significance thought it is significant at 10%. The study therefore, also shall fail to reject the null hypothesis and conclude that there is no significant relationship between firm age and financial reporting quality of listed deposit money banks in Nigeria.

V. Discussion of Findings

The first hypothesis was set up to establish whether or not there was a significant relationship between firm size and financial reporting quality of listed deposit money banks in Nigeria. Our findings are that there is no significant relationship between firm size and financial reporting quality. A p-value of 0.113 is indicative of the fact that the association can only be significant at 15%. A positive relationship of 0.5975 with abnormal loan loss shows that the bigger the firm the more the abnormal loan loss provision and the lower the quality of the financial report. However, since this relationship is at 0.113 > 0.05, we draw the conclusion that there is no significant relationship between the two variables. Further, in consideration of one of the objectives of the study, the effect of the size of listed deposit money banks in Nigeria on the quality of their financial reports can be said to be insignificantly negative. On a final note, and in order to give answers to the first research question we can establish that the relationship between firm size and the quality of their financial reports is a negative one.

This finding is in line with the findings of Missonier-Piera (2004) and Thoopsamut and Jaikengkit (2009). These studies posit that company size is not significantly related to financial reporting quality although their work was not conducted in an emerging economy like Nigeria. This finding is also in line with Waweru & Riro, (2013) who established that company size is not significantly related to financial reporting quality. Other studies that are consistent with our finding were carried out by Missonier-Piera 2004 and Thoopsamut & Jaikengkit (2009). However, the finding of this work is inconsistent with that of Shehu & Ahmad (2013) who posited that large firms have very strong reasons to manipulate their earnings in order to keep consistent

earnings growth trend and meet and beat earnings expectations, they documented that firm size has significant effect on earnings quality. Other studies with findings that are contrary to our findings are Becker, DeFoond, Jiambalvo, & Subramanyam,(1998). The reasons for these divergent findings may not be unconnected with the fact that most of these studies were not carried out in an emerging economy and for the study conducted by Shehu and Ahmad (2013), the focus was in the manufacturing industry.

The findings in this current study is quite important as it has shown that as it concerns the deposit money banks, even though there is a negative relationship between firm size and financial reporting quality, the relationship is quite insignificant. The implication of this to the regulators and other stake holders is for them to now focus on other characteristics that are significantly related to financial reporting quality.

The objective of the second hypothesis is to establish whether or not there is a significant relationship between leverage and financial reporting quality of listed deposit money banks in Nigeria. This relationship is put at 0.2020 however; this is also not significant at a p-value of 0.377 > 0.05. Hence, we concluded that there is no significant relationship between leverage and financial reporting quality of listed deposit money banks in Nigeria. The relevant objective to this hypothesis is to examine the impact of debt financing on financial reporting quality of listed deposit money banks in Nigeria. The finding has shown that the impact is very weak and quite insignificant. Hence, the level to which the leverage of listed deposit money banks in Nigeria affects their financial reporting quality is negative 20percent at a p-value of 0.377.

The finding of this current work is in line with those of (Wallace, Naser, & Mora 1994; Owusu-Ansah, 1998; Nedal, Bana, & David, 2010), who did not find any significant positive relationship between leverage and financial reporting quality. But inconsistent with Waweru and Riro (2013) who asserts that highly leverage firms are more likely to engage in earnings management than firms that are not highly leveraged. Shehu 2013 and Shehu & Ahmad 2013 also established a significant relationship between the degree of leverage and the level of earnings management in contrast to our finding. Reasons for this variation could also be possibly explained by the difference in economy, period and timing of study and the specific industrial differences.

The implication of this finding is that leverage is negatively and insignificantly related to financial reporting quality, which means that increasing gearing will negatively impact, though insignificantly on the financial reporting quality. This is because the regression result indicates a positive relationship between leverage and abnormal loan loss provision and increasing abnormal loan loss provision is an indication of earnings management whereas earnings management is negatively related to financial reporting quality. In as much as debt financing is likely to enhance the firms value, it is also capable of exposing the firm to the risk of liquidation or take over, managers should therefore find the optimal point for sustainable development.

Hypothesis 3 was designed to establish whether or not there is a significant relationship between firm age and financial reporting quality of listed deposit money banks in Nigeria. The finding of the study reveals that the relationship between firm age and financial reporting quality is a positive one since it has a negative relationship with abnormal loan loss. The extent of this relationship is put at -0.1066 at a p-value of 0.089. Although not significant at 5% level of significance it is significant at 10%. Hence, our decision not to reject the null hypothesis and our conclusion that there is no significant relationship between firm age and financial reporting quality of listed deposit money banks in Nigeria. In answering our research question, the association between the age of listed deposit money banks in Nigeria and the quality of their financial report is a positive one which means that the older the firms, the better the quality of their financial statement. The finding is in line with Chalaki, Didarand Riahnezhad (2012) and Huang, Rose-Green and Lee (2012), their studies established that there is no significant relationship between firm age and financial reporting quality. Even though our finding has show an insignificant positive relationship between firm age and financial reporting quality, the positive relationship is significant at 10% level of significance. Hence stake holders and regulator should expect the financial reports of a firm to improve over time because the internal control of such firms are expected to become better structured with time and a strong internal control is associated with financial reporting quality (Huang, Rose-Green, & Lee, 2012).

VI. Recommendations

Since the relationship between firm size and financial reporting quality is negative though insignificant, which imply that the bigger the bank the lower the quality of the financial reports. The study will recommend for shareholders and financial analyst to always make provisions for this when doing interbank analysis. A negative relationship between leverage and financial reporting quality suggest that the higher the level of leverage the lower the quality of the financial report. Even though this relationship is not significant, the study will like to recommend that the apex bank give a leverage ceiling for banks based on certain parameter such as asset size, deposit base and so on especially for those banks borrowing from other countries in other currencies which also introduces foreign exchange risk. The relationship between firm age and financial reporting quality is insignificantly positive at 5% level of significance but significantly positive at 10% level of significance, this suggests that the older the firm, the better the quality of their financial statement. The study will therefore like to

recommend that the apex bank prescribe a minimum standard for the internal control of deposit money banks in Nigeria so that both new and old banks will achieve a minimum level of quality in their financial reporting practices.

VII. Conclusions

The study covers thirteen out of the fifteen listed deposit money banks in Nigeria as at the financial year ended 2017 and determines the relationship between firm structural attributes and financial reporting quality. Based on our finding from the regression result and the test of hypotheses 1, 2 and 3;

Hypothesis 1 sought to examine the relationship between firm size and financial reporting quality of listed deposit money banks in Nigeria and further to determine how significant this relationship is. Based on our finding, we conclude that firm size is not a significant factor that determines the quality of financial reports although there is an insignificant negative relationship. Hypothesis 2 focused on determining the relationship between the level of leverage in Nigeria banks and financial reporting quality. Based on our findings we conclude that leverage is not a significant determinant of financial reporting quality in the Nigerian banking industry although there is an insignificant negative relationship. Hypothesis 3 aimed at evaluating whether or not firm age is a determinant of financial reporting quality of listed deposit money banks in Nigeria. The result obtained from this study as shown in table 2 assisted us to conclude that firm age is only positively significantly related to financial reporting quality at 10% level of significance and not at 5%, hence, firm age is positively related to financial reporting quality although the relationship is insignificant.

The overall conclusion of the study therefore is that firms characteristics have no significant relationship with financial reporting quality of listed deposit money banks in Nigeria

References

[1]. Asokan, A., Iftekhar, H., & Cornelia, M. (2007). Use of Loan Loss Provisions for Capital, Earnings Management and Signalling by Austrialian Banks. *Journal of Accounting and Finance, 47*(3), 357-379. http://dx.doi.org/10.1111/j.1467-629X.2007.00220.x

[2]. Bekcker, C., DeFoond, M., Jiambalvo, J., & Subramanyam, K. R. (1998). The Effect of Audit Quality on Earnings Management. *Contemporary Accounting Research, 15*(1), 1-24. http://dx.doi.org/10.1111/j.1911-3846.1998.tb00547.x

[3]. Cbn Prudential Guidlines. (2010). *Publication/Bsd/Prudential Guidlines.* Retrieved from http://www.cenbank.org

[4]. Chalaki, P., Didar, H., & Riahnezhad, M. (2012). Corporate Governance Attributes and Financial Reporting Quality: Empirical Evidence from Iran. *International Journal of Business and Soicial Science, 3*(15), 223-229.

[5]. Chen, Q., & Jaggi, A. (2007). Finanacial Accounting Information, Organational Complexities and Corporate Governance Systems. *Journal of Accounting and Economics, 37*(2), 167-201.

[6]. Dabor, E. L., & Ibadin, P. O. (2013). An Evaluation of the Implications of Earnings Management Determinants

[7]. Dechow, P., & Dichev, I. (2002). The Quality of Accruals and Earnings: The Role of Accrual Estimation Errors. *The Accounting Review, 77*, 35-59. http://dx.doi.org/10.2308/accr.2002.77.s-1.35

[8]. Dechow, P., & Ge, W. (2006). The persistence of earnings and cash flows and the role of special items:Implications for the accrual anomaly. *Review of Accounting Studies, 11*, 253-296. http://dx.doi.org/10.1007/s11142-006-9004-1

[9]. Farroque, O. A., Ziji, T. V., Dunstan, K., & Karin, A. W. (2007). Corporate Governance in Bangladesh: Link between Ownership and Financial Performance. *BRAC University Journal of Corporate Governance*, 15-29.

[10]. FASB. (2010). Conceptual Framwor for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Useful Financial Information. *Norwalk, Connecticut: Financial Accounting Foundation.*

[11]. Gujerati, D. N., Porter, D. C., & Gunasekar, S. (2012). *Basic econometrics* (5th ed.). New Delhi: Tata McGraw Hill Education Limited.

[12]. Huang, H. W., Rose-Green, E., & Lee, C. C. (2012). CEO Age and Financial Reporting Quality. *Accounting Horizons, 26*(4), 725-740. http://dx.doi.org/10.2308/acch-50268

[13]. IASB. (2008). *Exposure Draft on an improved Conceptual Framwork for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information.* London: IASB.

[14]. In the Banking Industry: The Case of Nigeria. *Afican Journal of Social Sciences, 3*(3), 118-129.

[15]. Jensen, M. C., & Meckling, W. H. (1976). The Theory of the firm;Managerial behaviour, Agency Costs, and Ownership Structure. *Journal of Financial Economics, 11*(4), 305-360. http://dx.doi.org/10.1016/0304-405X(76)90026-X

[16]. Kamaruzaman, A. J., Mazilifa, M. D., & Maisarah, A. R. (2009). The Association between Firm Characteristics and Financial Statements Transparency; The Case of Egypt. *International Journal of Accounting, 18*(2), 211-223.

[17]. Kanagaretnam, K., Krishnan, G. V., & Lobo, G. J. (2010). An Empirical Analysis of Auditors Independence in the Banking Industry. *The Accounting Review, 85*(6), 2011-2046. http://dx.doi.org/10.2308/accr.2010.85.6.2011

[18]. Maimako, S. S., & Oladele, O. K. (2008). Risk Dimensions in Business Processes in Nigeria; A Comparative Study of The Nigerian Banking and Insurance Sub-Sector between 1999 and 2006. *International Conference on Marketing* (pp. 11-21). Jos: Department of Management Sciences,University of Jos.

[19]. Maharshi, D. U. (2004). Accounting theory. Naraina, Phase 1, New Delhi-110028: ROHTAK. 124 001 EXCEL BOOKS PVT. LTD., A-45.

[20]. Martinez-Ferrero, J. (2014). Consequences of Financial Reporting Quality on Corporate Performance; Evidence at International Level. *Estudios de Economia, 41*(1), 49-88. http://dx.doi.org/10.4067/S0718-52862014000100002

[21]. McNichols, M. F. (2000). Research design issues in earnings management studies. *Journal of Accounting and Public Policy, 19*, 313-345. http://dx.doi.org/10.1016/S0278-4254(00)00018-1

[22]. Missonier-Piera, F. (2004). Economic Determinants of Multiple Accounting Mrthod Choices in Swiss Context. *Journal of International Financial Management and Accounting, 15*(2), 119-144. http://dx.doi.org/10.1111/j.1467-646X.2004.00104.x

[23]. Nedal, A., Bana, A., & David, A. (2010). Ownership Structure and Earnings Management in Earnings Markets: A case of Jordan. *Jornal of Finance and Economics, 3*(2), 1-20.

[24]. Okwoli, A. A. (2009). Principles of financial accounting. Jos: Go-Go International.

[25]. Owusu-Ansah, S. (1998). The Impact of Firm Characteristics on the Extent of Mandatory Disclosure and Reporting by Listed Firms in Zimbabwe. *International Journal of Accounting, 33*(5), 605-626. http://dx.doi.org/10.1016/S0020-7063(98)90015-2
[26]. Saheed, Z. (2013). Impact of Globalisation on Corporate Governance in Developing Economy; A Theoretical Approach. *Journal of Business and Management, 2*(1), 1-10. http://dx.doi.org/10.12735/jbm.v2i1p01
[27]. Shehu, & Ahmad. (2013). Firm Characteristics and Financial Reporting Quality of Listed Manufacturing Firms
[28]. Shehu, U. H. (2013). Financial Reporting Quality, Does Monitoring Characteristics Matter? An Empirical Analysis of Nigerian Manufacturing Sector. *The Business & Management Review, 3*, 147-161.
[29]. Thoopsamut, W., & Jaikengkit, A. (2009). Audit Committee Characteristics, Audit Firm Size and Quarterly Earnings Management in Thailand. *Oxford Journal, 8*(1), 3-12.
[30]. Valipour, H., & Moradbeygi, M. (2011). Corporate Debt Financing and Earnings Quality. *Journal of Applied Finance & Banking, 1*(3), 139-157.
[31]. Van Beest, F., Braam, G., & Boelens, S. (2009). Quality of Financial Reporting: Mdasuring Qualitative Characteristics. *Nijmegen Center of Economics Working Paper*, 09-108.
[32]. Wallace, R. S., Naser, K., & Mora, A. (1994). The Relationship between Comprehensiveness of Corporate annual reports and firm Characteristics in Spain. *Accounting and Business Resaerch, 25*(97), 41-53. http://dx.doi.org/10.1080/00014788.1994.9729927
[33]. Wallace, R. S. (1988). Corporate Financial Reporting in Nigeria. *Accounting and Business Research, 18*(72), 352-362. http://dx.doi.org/10.1080/00014788.1988.9729382
[34]. Waweru, N. M., & Riro, G. K. (2013). Corporate Governance, Firm Characteristics and Earnings Management in an Emerging Economy. *Journal of Accounting Research, 11*(1), 43-64.

IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with Sl. No. 4481, Journal no. 46879.

Adekunle, Dada Surajudeen. " Firm Structure and Quality of Financial Reporting In Nigeria". IOSR Journal of Business and Management (IOSR-JBM), Vol. 21, No. 7, 2019, pp. -.38-47