Effect of Financial Reporting Quality on Corporate Performance: Empirical Evidence from Quoted Manufacturing Companies

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ABSTRACT

A core factor positively affecting the quality of financial reporting is attention to due diligence with respect to audit which brings more comfortability to some stakeholders about the underlying economic performance of the company. Basically, this created significant effect, like increase in share prices, company's financial performance and erosion of investors' confidence on the Manufacturing Companies in Nigeria. The study therefore sets out to find investors the Effect of Financial Reporting Quality on Corporate Performance of Selected Quoted Manufacturing Companies. Data used for this investigation were collected from secondary sources. Secondary data include textbook, Annual Reports and financial statements and internet facilities. The Ex-post facto research design was employed in the study and the formulated hypothesis were tested by use of Multiple Logistic Regression. Based on the analysis and the hypothesis tested, it was showed that there is a statistically significant effect of Financial Reporting Quality on Corporate Performance of Selected Quoted Manufacturing Companies and based on this findings, it was recommended amongst others that, accounting information is required to be made available within a short period of time from the end of the reported period; otherwise, it loses some of its economic and credible value.

Keywords: Financial Reporting Quality, Corporate Performance, Manufacturing Companies, Share Prices

1.1 Background of the Study

Financial accounting is concerned with how best to provide useful accounting information to assist decision-makers (Foster, 1986). And, an important medium useful for the communication of accounting information to users is the financial statement (Foster, 1986). Financial statements are described as the end product of accounting transactions and entries aimed at providing qualitative and quantitative financial information on the performance of organisation in order for users to make informed decisions (Ilaboya, 2008). Financial statements provide information on the income and expenses of a company in a fiscal year captured in the statement of profit or loss and other comprehensive income and details of assets and liabilities owed shown in the statement of financial position. In addition, it also provides other relevant information contained in the statement of value added, changes in equity if any and statement of cash flows of the firm within a defined period of time to which it relates (Krstić & Đorđević, 2010; Iyoha & Faboyede, 2011).

The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (FASB, 1999; IASB, 2008). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment,

credit, and similar resource allocation decisions enhancing overall market efficiency (IASB, 2006; IASB, 2008). Financial reporting quality is a broader concept that not only refers to financial information, but also to disclosures, and other non-financial information useful for decision making included in the report (Beest, Braam, & Boelens, 2009).

Decision-useful information is defined as "information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers" (IASB, 2008: 12). Financial reporting is a duty of stewardship assigned to the directors of a company by section 334 of the Company & Allied Matters Act (CAMA); it is equally responsibility of companies to keep accounting records, as contained in section 331 and 382 of the Act. These sections explicitly defined the necessary content and manner in which financial records should be kept (Madu, 2012). Jonas and Blanchet (2000) observed that financial reporting is not only a final output; the quality of this process depends on each part, including disclosure of the company's transactions, information about the selection and application of accounting policies and knowledge of the judgments made.

Prior literature defines financial reporting quality in terms of the fundamental and enhancing qualitative characteristics underlying decision usefulness (IASB, 2008). The fundamental qualitative characteristics (i.e. relevance and faithful representation) are most important and determine the content of financial reporting information. The enhancing qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness) can improve decision usefulness when the fundamental qualitative characteristics are established. However, they cannot determine financial reporting quality on their own (IASB, 2008). Shehu (2012) opined that quality financial reporting could be achieved by full disclosure and higher level of transparency; and regarded corporate transparency as the widespread availability of relevant and reliable information about the periodic performance that is free from errors and misstatements.

Financial information issued by a company has become an essential resource for any market participant, since it provides a reduced amount of information asymmetries between managers, investors, regulatory agencies, society and other stakeholders. Financial reporting quality promotes transparency and high quality annual report through comprehensive disclosure (Shehu, 2012), because the accuracy and reliability of financial reports affects the perception of a firm by stakeholders, shareholders and prospective investors (Joe Duke & Kankpang, 2011).

Therefore, financial reporting quality is of prime interest to a broad range of stakeholders, this study is set to examine the effect of financial reporting quality on corporate performance of quoted manufacturing companies in Nigeria.

1.2　Statement of Problem

The rapid expansion of markets and businesses globally, coupled with greater demand for information and transparency among investors, stakeholders and society in general, find their toehold in financial reporting quality (Ferrero, 2014). The financial report is expected to show the economic and financial situation of the company, in order to inform managers and shareholders (Mathews & Perera, 1991; Moneva & Llena, 2000), and is of crucial importance in decision making, when the interests of both shareholders and creditors must be taken into account (American Accounting Association (AAA), 1977). However, the bounded rationality of shareholders (i.e. Principal) presents a platform for the opportunistic tendencies of directors (i.e. agent). This reveals a gap between the information-need of shareholders and the level of confidence they have in the quality financial reports presented by directors because it is through the same financial reports that the shareholders and other external stakeholders can assess the performance of the directors (Onuorah & Friday, 2016).

Studies have shown that companies with higher quality financial information are associated with subsequent higher market performance; due to a positive market assessment of those companies when compared to those firms with lower quality financial information with subsequent lower market performance (Ahmed & Duellmand, 2011; Garcia Lara, Garcia Osma, & Penalva, 2010; Gunny, 2005; Bens, Nagar, & Wong, 2002; Bushman & Smith, 2001). Furthermore, Lin, Jiang, Tang, and He (2014) argue that high-quality financial reporting provides timely, relevant, and transparent information that could help minimize uncertainty. Conversely, low-quality financial reporting is associated with ambiguous, misleading, or unreliable information, which is likely to increase information asymmetry and market illiquidity. Because market participants are likely to face great uncertainty and risk, they may pay closer attention to the credibility of information in making a decision during a financial crisis.

Nigeria like other countries of the world witnessed corporate scandals and failures, such as Oceanic Bank, Societe Generale Bank, Savannah Bank and Cadbury Plc. This could be traced to managerial opportunistic behaviour and unethical accounting practices, which have been identified as major challenges to financial reporting quality (Shen & Chih, 2007). Financial reports of Nigerian companies have been found to be deficient over time (Wallace, 1988; Adeyemi, 2006; Nzekwe, 2009), in the sense that they lack vital information that will enable stakeholders make informed decisions (Adekunle & Asaolu, 2013). Afolabi (2013) observed that one major problem of financial reporting disclosure in Nigeria is the non-compliance to industry corporate governance, ethics, and regulatory standards which is prevalent in the manufacturing industry.

Studies have shown that corporate performance and growth determine the quality of financial information reported by companies (Lee, Li, & Yue, 2006). Therefore, a crucial question bothering on the financial reporting quality in Nigeria is its effect on performance of a company. Even though companies may generate financial statements in accordance with generally accepted accounting principles, these statements may present differing levels of quality (Choi & Pae, 2011). This study therefore seeks to address this lacuna.

1.3 Objectives of the Study

The main objective of this study is to examine the effect of financial reporting quality on corporate performance of manufacturing firms in Nigeria. The specific objectives of the study are as follows:

1. To ascertain the effect of financial reporting quality on return on assets of manufacturing companies.
2. To determine the effect of financial reporting quality on return on equity of manufacturing companies.
3. To examine the effect of financial reporting quality on net profit margin of manufacturing companies.
4. To determine the effect of financial reporting quality on gross profit margin of manufacturing companies.

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review
2.1.1 Financial Statement Components

Financial report is a formal and comprehensive statement describing financial activities of a business organisation (Afolabi, 2013). The International Accounting Standards Board [IASB] (2007a) as cited in Afolabi (2013) describe a financial report as a statement that reports all relevant financial information, presented in a structured manner and in a form easy to understand for managerial use for taking prompt and informed decision making related to investment.

According to Afolabi (2013) financial reports comprises of balance sheet (for determining financial position), profit and loss statement (describes statement of comprehensive income), statement of equity changes (explain the changes of the company's equity), and cash flow statements (reports on a company's cash flow activities, particularly its operating, investing and financing activities).

The three key financial statements are the:

1. balance sheet
2. income statement (or profit and loss account)
3. statement of cash flows.

a) **Balance sheet:** The balance sheet is the fundamental financial statement that represents company's financial position and is the basis for estimating the security of business (Zager & Zager, 2006). Basic elements of balance sheet are assets, liabilities and owners' equity. It presents a financial snapshot at a moment in time or the financial position of the company and is comparable with pressing the 'pause' button on a DVD. The DVD in 'play' mode shows what is happening as time goes on second by second, but when you press 'pause' the DVD stops on a picture; the picture does not tell you what has happened over the period of time up to the pause (or what is going to happen after the pause). The balance sheet is the consequence of everything that has happened up to the balance sheet date. It does not explain how the company got to that position.

b) **Income statement:** While balance sheet represents the financial position in a particular moment, income statement (or profit and loss account) represents company's performance for a particular time period. Basic elements of this statement are: revenues, expenses and their difference which can be profit or loss (Zager & Zager, 2006). It is comparable with the DVD in 'play' mode. It is used to calculate whether or not the company has made a gain or deficit on its operations during the period, its financial performance, through producing and selling its goods or services. Net earnings or net profit is calculated from revenues derived throughout the period between two 'pauses', minus costs incurred in deriving those revenues.

c) **Statement of cash flows:** this is the DVD again in 'play' mode, but net earnings is not the same as cash flow, since revenues and costs are not necessarily accounted for when cash transfers occur. Sales are accounted for when goods or services are delivered and accepted by the customer but cash may not be received until sometime later. The income statement does not reflect non-trading events like an issue of shares or a loan that will increase cash but are not revenues or costs. The statement of cash flows summarises cash inflows and cash outflows and calculates the net change in the cash position for the company throughout the period between two 'pauses'.

Accounting plays important and useful role by developing the information for providing answer to many question faced by the users of accounting information such questions are (Siyanbola, 2012):

- How good or bad is the financial condition of the business?
- Has the business activity resulted in a profit or loss?
- How well the different departments of the business have performed in the past?
- Which activities or products have been profitable?
- Out of the existing products which should be discontinued and the production of which commodities should be increased?
- Whether to buy a component from the market or to manufacture it?
- Whether the cost of production is reasonable or excessive?
- What has been the impact of existing policies on the profitability of business?
- In the light of past performance of the business how should it plan for future to ensure desired results?

Therefore, financial information issued by a company has become an essential resource for any market participant, since it provides a reduced amount of information asymmetries between managers, investors, regulatory agencies, society and other stakeholders (Martínez-Ferrero, 2014).

2.1.2 Users of Accounting and Financial Information

Financial information is important to a wide range of groups both internal and external to the organisation. Such information is required, for example, by individuals outside the organisation to make decisions about whether or not to invest in one company or another, or by potential suppliers who wish to assess the reliability and financial strength of the organisation. It is also required by managers within the organisation as an aid to decision-making. The main users of financial information are:

1. Shareholders/investors
2. Managers/directors
3. Lenders
4. Investment analysts
5. Government
6. General public
7. Employees
8. Customers
9. Competitors
10. Suppliers

Figure 2.1: Conceptual View of Accounting Disclosures and Users of Accounting Information

Source: Adebimpe (2009)
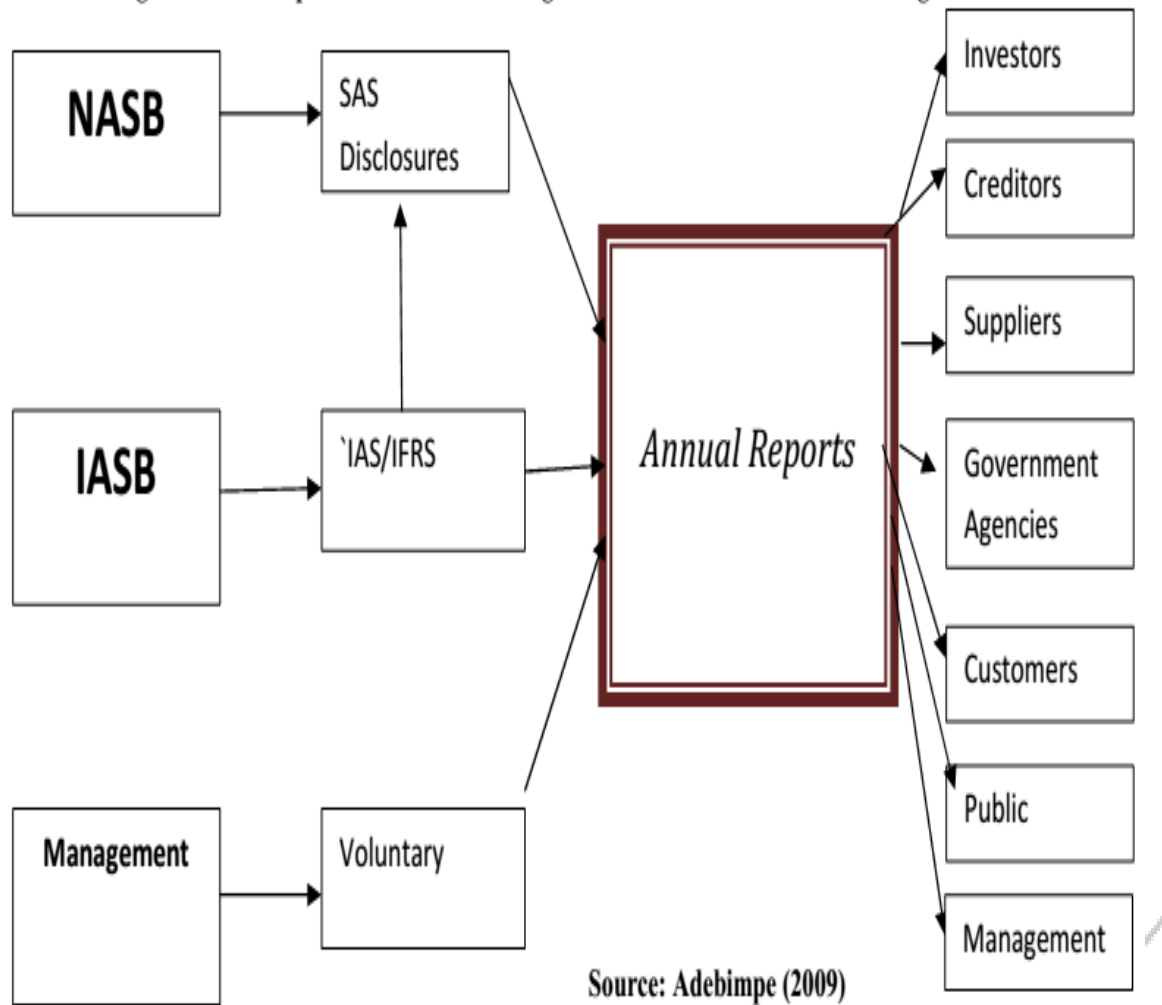
Accounting also exists as a service function, which ensures that the financial information that is presented meets the needs of the users of financial information. To achieve this, accountants must not only ensure that information is accurate, reliable and timely but also that it is relevant for the purpose for which it is being provided, consistent for comparability, and easily understood. In order to be useful to the users of financial information, the accounting data from which it is prepared, together with its analysis and presentation, must be:

i. accurate – free from error of content or principle
ii. reliable – representing the information that users believe it represents
iii. timely – available in time to support decision-making
iv. relevant – applicable to the purpose required, for example a decision regarding a future event or to support an explanation of what has already happened
v. consistent – the same methods and standards of measurement of data and presentation of information to allow like-for-like comparison
vi. clear – capable of being understood by those for whom the information has been prepared

2.1.3 Financial Reporting Quality

Financial reporting is a critical issue which affects the decision making process of various individuals, corporate bodies, investors and policy makers (Nzotta, 2008). According to Glautier and Underdown (2001) the primary objective of financial reporting is to communicate information about the resources held by entity and performances of the reporting entity, useful to those having right to such information. Nzotta (2008) stated that financial reports assist the users in evaluating the past and present performance of the organization and its ability to maximize the wealth of the shareholders. Furthermore, it assesses the ability of the firm to create value and objective assessment of the value created overtime. Financial reports highlight financial information which provides insights into these resources held by an organization, the claims to these resources including the obligation of the firm to transfer resources to other entities and owners and the effects of transactions, events and circumstances that change its resources and claims to these resources (Glautier & Underdown, 2001). Financial reporting quality requires companies to voluntarily expand the scope and quality of the information they report, to ensure that market participants are fully informed in order to make well-grounded decisions on investment, credit, etc. This high quality information facilitates greater transparency and this greater transparency reduces the information asymmetries and satisfies investors and stakeholders' needs (Martínez-Ferrero, 2014). On the other hand, for Jonas and Blanchet (2000), financial reporting is not only a final output; the quality of this process depends on each part, including disclosure of the company's transactions, information about the selection and application of accounting policies and knowledge of the judgments made. This process may be influenced by factors related to taxes, dividends, and other factors relevant to the information needs of external providers of capital (Ball & Shivakumar, 2005; Burgstahler, Hail, & Leuz, 2006).

To assess the quality of financial reporting, various measurement methods have been used. Some of these qualities are discussed below:

a) **Relevance:** As a quality of financial report is referred to as the capability of making a difference in the decisions made by users in their capacity as capital providers IASB (2008). Many researchers have operationalized predictive value as the ability of past earnings to predict future earnings (Schipper & Vincent, 2003). Confirmatory value of the relevance of financial reporting information if it confirms or changes past or present expectations based on previous evaluations (IASB, 2008).

b) **Faithful presentation**: Faithful representation is the second fundamental quantitative characteristic in the standard. To faithfully represent economic phenomenon, that information must be complete, neutral, and free from material error. Faithful representation is measured using five items of neutrality, completeness, freedom from material error, and verifiability (Maines & Wahlens, 2006).

c) **Understandability**: The first enhancing characteristic, understandability, will increase when information is classified, characterized and presented clearly and concisely. According to IASB (2008), understandability is when the quality of information enables users to comprehend their meaning. Courtis (1995) argues that understandability is measured using transparency and cleanness of the information in annual reports.

d) **Comparability**: This characteristic of financial reports explains the quality of information that enables users to identify similarities and differences between two sets of economic phenomena. (Schipper & Vincent, 2003).

e) **Timeliness**: This characteristic of financial report means having information available to decision makers before it loses its capability to influence decisions IASB (2008). It refers to the time it takes to reveal the information.

Qualitative features are those features that make information suitable for users (Zare, Kabiri, & Shahsavari, 2011). Some qualitative features relate to information contents in financial statements and some others relate to quality of information (Salehi, Hematfar, & Heydari, 2011).

1. Relevance: include well-timed information, suitable anticipation, and suitable evaluation.
2. Reliability: include confirmation capability, comprehension, correctness, priority of contents on forms, and neutrality.
3. Comparability: include procedure stability and disclosure (Narimani, 2007).

Extant literature shows that the quality of financial reporting depends on the following country-level factors: the underlying legal system (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998); whether the economy is market-oriented or bank-oriented (Durnev & Kim, 2005); the accounting standards adopted (Barth, Landsman, & Lang, 2008; Tang, Jiang, & Lin, 2010); and the level of law enforcement (Hope, 2003). At the firm level, quality of financial reporting is associated with characteristics of the firm, such as size, auditor type, overseas listings, recent increases in capital or debt, and complexity (Morris & Gray, 2007). It is also widely accepted that management has incentives to manage earnings, which would result in higher earnings opacity and increase information risk. Such incentives include improving market performance, boosting share price, increasing analyst following, and others (Barth, Elliot, & Finn, 1999; Schrand & Walther, 2000). If the market price is expected to react to unexpected earnings (Ball & Brown, 1968) and rational managers believe that investors are unable to detect opportunistic behaviour (Bernard & Thomas, 1990, 1989; Abarbanell & Bernard, 1992; Ball & Bartov, 1996; Sloan, 1996), then managers will take advantage of the inherent subjectivity in accounting assumptions and standards to achieve personal benefit by engaging in earnings management (Holthausen & Verrecchia, 1990; Healy & Palepu, 1993; Ahmed, Takeda, & Thomas, 1999).

Apart from capital market considerations, there may be direct economic consequences of earnings measures, for example, regulatory and political costs, debt covenants, and CEO compensation (Aboody & Kasznik, 2000; Aboody, Barth, & Kasznik, 2004; Watts & Zimmerman, 1990). Dechow, Ge, and Schrand (2010) concluded that management discretion, distortions of disclosure, estimation errors, and manipulation of the size of reported gains or losses all reduce the quality of financial reporting.

Numerous advantages of high-quality information have been cited: financial reporting quality reduces information risk and liquidity (Lambert, Leuz, & Verrecchia, 2007), prevents managers from using discretionary power for their own benefit and helps them make efficient investment decisions (Chen, Hope, Li, & Wang, 2011). Specifically, one of the main benefits of better financial reporting quality is based on the minimisation of asymmetric information problems that arise from conflicting agency (Rajgopal & Venkatachalam, 2011). Companies that report higher quality financial information give to the various markets' agents' better information on it, allowing them to act in the market with better conditions and a higher level of information (Jo & Kim, 2007).

2.2 THEORETICAL FRAMEWORK

2.2.1 Stewardship Theory

Stewardship Theory was developed by Davis, Schoorman, and Donaldson (1997) by using Theories X and Y, which were established by McGregor (1960). This theory assumed that two opposite types of people exist, one of which demonstrates passive work motivation (X theory) and one of which demonstrates active work motivation (Y theory, also called innate goodness theory). These assumptions were used to explain why agency theory mechanisms failed in current society. Agency Theory involves one-sided assumptions regarding managerial behaviour. In the real world, certain managers achieve intrinsic satisfaction or obtain the recognition of others by completing the tasks assigned by their organizations. This desire for self-actualization allows their behaviours to surpass the limitations of money and other incentives.

Stewardship theory holds that certain managers possess innate goodness, pursuing the maximal benefit to shareholders as a primary objective and valuing their commitments toward the organization. In organizations, these managers play the roles of stewards, safeguarding the benefits of the corporation. Manager behaviour is driven by social perceptions and self-achievement. Thus, the self-interests of managers and benefits to the company and all company personnel are mutually linked, and no conflicts arise (Block, 1996; Davis, Schoorman, & Donaldson, 1997; Lee & O'neill, 2001).

2.2.2   Disclosure Theory

Disclosure theory is theoretically rooted in economic justifications that disclosure of information underlies agency and information problems, which impeded capital markets optimal allocation of resources (Beattie et al., 2004; Healy and Palepu, 2001). Healy and Palepu (2001) mentioned that there are numerous solutions to the agency problem. Normally, the principals seek to align agents towards an optimal contractual relationship by compensation agreements, which bind management to disclose relevant information. This makes it possible for shareholders to analyse whether the corporation's resources have been managed in the principals' best interests. The disclosure of relevant information in financial reporting can be used to monitor the agent's fulfilment of the contractual agreements as it facilitates the disclosure of events and transactions in which managers behave in a manner that is not in the principals' best interest (Rimmel, Jonäll, & Johansson, 2011).

The primary objective of an overall corporate reporting is to provide users with useful information to be able to make decisions. The IFRS framework recognises a range of potential uses, but specifically focuses on usefulness in making economic decisions. Prior research has however identified a wider range of user groups of corporate reporting some of these are: existing and potential equity investors; existing and potential loan creditors; existing, potential and past employees; analysts/advisers, including financial analysts, financial journalists, trade unions and credit rating agencies; the business contact group, including customers, suppliers and competitors; the government and the public (Rowbottom & Lymer, 2011; Beattie et al., 2008; McInnes et al., 2008). The objective of any corporate report is to communicate timely, reliable and relevant information about an organization.

That information must be readily understandable because it will be used for making economic decisions. There are some qualitative characteristics in reporting that are likely to be most useful to users in making decisions about the organization on the basis of information in its corporate report.

These qualitative characteristics are, according to the IFRS framework: relevance, faithful representation, comparability, verifiability, timeliness and understandability. Relevance and faithful representation are the fundamental qualitative characteristics of useful financial information. Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. These last four characteristics are relating to the content of information and how it is presented. To satisfy the diverse needs of user groups, statements in addition to the profit and loss account, balance sheet and cash-flow statement are supposed to be needed. As there are many diverse users of corporate reports, meeting the needs of all of them would be impossible. Even trying to balance their needs would result in long and laborious reports.

Disclosure theory presumes that disclosed information enhances stakeholders understanding of corporation's economic risk and as a result lowers the cost of capital. A variety of economic and institutional factors determine whether contracting, regulation and information intermediaries eliminate information asymmetry, or leave some residual information problem. These factors include the ability to write, monitor and enforce optimal contracts, proprietary costs that might make full disclosure costly for investors, regulatory imperfections and potential incentive problems for intermediaries themselves. Research on corporate disclosure, therefore, focuses on cross-sectional variation in these factors and their economic consequences (Rimmel, Jonäll, & Johansson, 2011).

Corporate disclosure falls into two broad categories: mandatory and voluntary. On one hand, mandatory disclosure consists of information disclosed in order to comply with the requirements of laws and regulations. On the other hand, voluntary disclosure is any information disclosed in addition to the mandatory disclosure. Voluntary disclosure is defined by Meek, Roberts, & Gray (1995) as "free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports." Moreover, voluntary

disclosure may include disclosure "recommended by an authoritative code or body" (Hassan & Marston, 2010).

2.3   EMPIRICAL REVIEW

Amr (2016) examine the effect of firm`s liquidity on the quality of its financial reports. The Study uses simple multiple regression model to investigate this relationship. The sample consists of 32 firms listed in the Egyptian stock exchange for the years 2014 and 2015, where firm liquidity is measured quick ratio. While quality of financial reports is measured by accounting conservatism, measured by MTB. Financial leverage, profitability and company size were used as moderating variables affecting the relationship in question. The relationship was tested using regression analysis. The results reveals significant positive relationship between firm's liquidity and level of financial leverage and firm productivity respectively. The results reveals that liquidity level is a good predictor for quality of financial reporting in Egypt.

Mohammadi (2014) investigate the relationship between financial reporting quality and investment efficiency and the factors affecting the firms listed in Tehran Stock Exchange from 2009 to 2012. Results of statistical analyses on 93 firms in Tehran Stock Exchange showed that the financial reporting quality had a significant positive correlation with the investment efficiency. Furthermore, it was found that there was a direct link between firm size and growth opportunities with investment efficiency. Finally, it was found that there was no correlation between cash holdings and tangibility of assets with investment efficiency.

Martínez-Ferrero (2014) examined the consequences of Financial Reporting Quality (FRQ) on Corporate Performance, using three proxies of FRQ: (i) earnings quality; (ii) conservatism; and (iii) accruals quality. Financial performance (FP) was measured by the market to book ratio. The proposed hypotheses are tested on an unbalanced sample of 1, 960 international non-financial listed companies from 25 countries and the special administrative region of Hong-Kong for the period 2002-2010. The study use simultaneous equations for the panel data, via the GMM estimator proposed by Arellano and Bond (1991). This result is robust according to the different measurements of FRQ (earnings quality, accruals quality and accounting conservatism) and for an aggregated measure for the previous three proxies of FRQ. The empirical evidence shows that this relationship is moderated by the level of corruption perception in the country of origin of the company, the adoption of IFRS, the accounting system used in the country and the influence of the economic cycle.

Ramalingegowda, Wang, and Yu (2013) investigate the role of financial reporting quality in mitigating the constraining effect of dividend policy on investment decisions. They find that high-quality financial reporting significantly mitigates the negative effect of dividends on investments, especially on R&D investments. Further, this mitigating role of financial reporting quality is particularly important among firms with a larger portion of firm value attributable to growth options. In addition, we show that the mitigating role of high-quality financial reporting is more pronounced among firms that have decreased dividends than among firms that have increased dividends.

Chen, Hope, Li, and Wang (2011) examine financial reporting quality and investment efficiency of private firms from emerging markets. Using firm-level data from the World Bank, our empirical evidence suggests that financial reporting quality positively affects investment efficiency. They further find that the relation between financial reporting quality and investment efficiency is increasing in bank financing and decreasing in incentives to minimize earnings for tax purposes.

Afolabi (2013) critically analyzed the effect of financial reporting on effective management decision making process in Nigeria using ten randomly selected manufacturing firms in Nigeria. The study surveyed 50 accounts, investment and financial analysts/managers within the sector for obtaining required data for analysis using a well-structured questionnaire. The study results revealed that financial reporting disclosure, corporate fraud and scandals, and financial reporting transparency have significant influence on effective management decision making related to investment in quoted manufacturing firms in Nigeria.

Maidoki (2013) focused on the evaluation of financial reports being instruments for effective managerial planning and decision making. The researcher administered questionnaire on the staff of WEMA Bank branches in the Western States of Nigeria. The result of the study indicates that

financial reporting, as a device for disclosure of organisation's financial dealings can eliminate some problems, resulting from inappropriate planning and decisions.

Adediran, Alade, and Oshode (2013) examine the impact of quoted companies attributes on the reliability of financial reporting in Nigeria. They investigate whether there is any significant relationship between companies attributes such as size, profitability, age and size of audit firm and the reliability of financial reporting. The data were collected through a secondary source from fifty-one randomly selected quoted companies in Nigeria for the year 2010. The data were analyzed using multiple regression analysis. They findings show that there is a significant relationship between company size, profitability, age and reliability of financial reporting and a negative relationship between size of audit firm and reliability of financial reporting in Nigeria. Also, the study reveals that profitability is the major companies' attribute that influences the overall quality of financial reports reliability in Nigeria.

Piri, Abdoli, and Homayoon (2013) study the relationship between transparency in financial reporting and earning quality. The following overall conclusion was obtained: the comparison between the obtained results from forward method and the situation in which only the variable of management (domain) transparency rank with earning quality were evaluated, show completely similar results as the determination coefficient in both models are 0.044. The obtained results indicate that the entrance of control variables do not influence the main model and cannot affect earnings quality. So, management (domain) transparency rank will be enough for earning quality measurement. Also, it must be noticed that the determination coefficient of this variable is not significant and to increase earning quality forecast, other variables must be measured.

Siyanbola (2012) analyzed accounting information as an aid to management decision making using a sample of fifty workers, of a typical manufacturing company. Primary data was gathered with the aid of a questionnaire. The testing of the hypotheses revealed that: accounting information has effects on management decision; there is a significant relationship between the perception of employees and accounting information; there is a significant relationship between time factor and accounting information; and, accounting information has effects on the company's performance.

Beest, Braam, and Boelens (2009) construct a compound measurement tool to comprehensively assess the quality of financial reporting in terms of the underlying fundamental qualitative characteristics (i.e. relevance and faithful representation) and the enhancing qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness) as defined in 'An improved Conceptual Framework for Financial Reporting' of the FASB and the IASB (2008). The operationalization of these qualitative characteristics results in a 21-item index. Using 231 annual reports from companies listed at US, UK, and Dutch stock markets in 2005 and 2007, they test the compound measurement tool on internal validity, inter-rater reliability (Krippendorff's alpha) and internal consistency (Cronbach's alpha) and suggest that the measurement tool is a valid and reliable approach to assess the quality of financial reports.

The study by Lambert, Leuz, and Verrecchia (2007) examine whether and how accounting information about a firm manifests in its cost of capital, despite the forces of diversification. They demonstrate that the quality of accounting information can influence the cost of capital, both directly and indirectly. The direct effect occurs because higher quality disclosures affect the firm's assessed covariances with other firms' cash flows, which is nondiversifiable. The indirect effect occurs because higher quality disclosures affect a firm's real decisions, which likely changes the firm's ratio of the expected future cash flows to the covariance of these cash flows with the sum of all the cash flows in the market. Hunton, Libby, and Mazza (2006) in a study that included 62 professional financial manager and the board members, reviewed the effect of financial reporting transparency on current earnings increase and on the reduction of earnings management efforts. They found out that the financial reporting transparency significantly makes adjustments in earnings management, rather than complete elimination. Their findings agree with the managers believes, based upon the fact that when disclosure trends are accomplished with less transparency, earnings management can lead to share price improvement, reliability of financial reporting faces no mark of alteration. But when the financial statements have more transparency, earnings management harms the accuracy, correctness and reliability of financial reporting.

METHODOLOGY

3.1   Research Design

The study adopted the ex-post facto and correlational research design. Kerlinger and Rint (1986) explained that in the context of social science research and '*ex-post facto*' investigation seeks to reveal possible relationships by observing an existing condition or state of affairs and searching back in time for plausible contributing factors. In correlational research, the goal is to determine whether two or more variables are related (Marczyk, DeMatteo, & Festinger, 2005).

3.2   Population of the Study

The population of the study was drawn from manufacturing companies quoted on the floor of the Nigerian Stock Exchange as at 31st December, 2017.

This is following the fact that the manufacturing sector remains the most powerful engine for economic structure of countries (Jide, 2010). Quoted companies are classified under several sectors, such as: Agriculture; Construction/Real Estate; Consumer goods; Financial Services; Healthcare; Industrial Goods; Information & Communications Technology; Natural Resources; Oil & Gas; Services; Utilities; and, Conglomerates (NSE, 2017). However, the scope of the study required a focus on Conglomerates, Consumer goods, and, Industrial Goods; the companies included in this sector are as follows (NSE, 2017):

1. A.G. Leventis Nigeria Plc
2. Chellarams Plc
3. John Holt Plc
4. SCOA Nigeria Plc
5. Transnational Corporation Plc
6. UACN Plc
7. DN Tyre & Rubber Plc
8. Champion Breweries Plc
9. Golden Guinea Breweries Plc
10. Guinness Nigeria Plc
11. International Breweries Plc
12. Nigerian Breweries Plc
13. 7-Up Bottling Company Plc
14. Dangote Flour Mills Plc
15. Dangote Sugar Refinery Plc
16. Flour Mills Nigeria Plc
17. Honeywell Flour Mill Plc
18. Multi-Trex Integrated Plc
19. N. Nigeria Flour Mills Plc
20. Union Dicon Salt Plc
21. Cadbury Nigeria Plc
22. Nestle Nigeria Plc
23. Nigerian Enamelware Plc
24. Vitafoam Nigeria Plc
25. P.Z. Cussons Nigeria Plc
26. Unilever Nigeria Plc
27. Mcnichols Plc
28. NASCO Allied Industries Plc
29. African Paints (Nigeria) Plc
30. Ashaka Cem Plc
31. Austin Laz & Company Plc
32. Avon Crowncaps & Containers
33. Berger Paints Plc
34. Beta Glass Plc.
35. CAP Plc
36. Cement Co. of North.Nig. Plc
37. Cutix Plc.
38. Dangote Cement Plc
39. First Aluminium Nigeria Plc

40. Greif Nigeria Plc
41. Lafarge Africa Plc
42. Meyer Plc
43. Paints and Coatings Manufactures Plc
44. Portland Paints & Products Nigeria Plc
45. Premier Paints Plc

3.3 Sample Size

According to Dibua (2009) sampling is the process of selecting a subset (sample) of observation from among many possible observations, for the purpose of conclusions about that largest set of possible observations. Considering the difficulties in working with the entire population, it becomes expedient to select a fair representation of the population, analyze it and generalize findings to the population.

3.4 Sources of Data

Data are facts or things certainly known and from which conclusion may be drawn. It forms the primary source of information for statistical and research analysis. Data could be primary or secondary (Akindele, Nassar, & Owolabi, 2008). The study primarily relied on secondary sources of data (i.e. Published Financial Statements) in obtaining the needed information in this study, for the effective application of the regression models. Secondary data on the other hand refer to that statistical material which is not originated by the researcher himself, but which he obtains from someone else's records (Akindele, Nassar, & Owolabi, 2008).

Secondary data was obtained from financial statements of manufacturing companies in Nigeria as shown on the Nigerian Stock Exchange Fact book for 2011/2012 and 2012/2013-2014 respectively. In addition, individual financial statements (if available) and websites of the various companies were consulted in providing the needed information on the various companies.

3.5 Methods of Data Analysis

Here a description is provided of the techniques employed in analysing the data collected or gathered for the purpose of the study (Akindele, Nassar, & Owolabi, 2008).

$$y = \alpha + \beta x_1 + \beta x_2 + \beta x_3 + \mu \ldots\ldots\ldots\ldots\ldots (1)$$

Where: y = ROA

x_1 = FRQ

x_2 = Firm size

x_3 = Sales effect

$$y = \alpha + \beta x_1 + \beta x_2 + \beta x_3 + \mu \ldots\ldots\ldots\ldots\ldots (2)$$

Where: y = ROE

x_1 = FRQ

x_2 = Firm size

x_3 = Sales effect

$$y = \alpha + \beta x_1 + \beta x_2 + \beta x_3 + \mu \ldots\ldots\ldots\ldots\ldots (3)$$

Where: y = NPM

x_1 = FRQ

x_2 = Firm size

x_3 = Sales effect

$$y = \alpha + \beta x_1 + \beta x_2 + \beta x_3 + \mu \ldots\ldots\ldots\ldots\ldots (4)$$

Where: y = GPM

x_1 = FRQ

$x_2 =$ Firm size

$x_3 =$ Sales effect

Control Variables
1. **Firm size (FS):** Firm size has become such a routine to use as a control variable in empirical corporate finance studies that it receives little to no discussion in most research papers, even though not uncommonly it is among the most significant variables (Kurshev & Strebulaev, 2005). Total assets were used as proxy for this, while logarithmic transformation of the figures was done. Bachetti (2013) observed that statistical models are sometimes more meaningful and accurate if outcome or predictor variables are transformed, and a common choice for transforming variables is to apply logarithmic transformation. This may be appropriate when the variable only takes on positive values, and results are easier to interpret than with most other types of transformations.
2. **Sales effect (Se):** Following Laksmana and Yang (2009) and Francis, LaFond, Olsson, and Schipper (2004), we added sales variability as a determinant of FRQ, because this variability reduces the quality of accruals (Lev, 1983). The study by Francis, LaFond, Olsson, and Schipper, (2004) used sales as one of the components of AQ and showed that an increase in sales variability is associated with a higher quality of accruals and therefore with higher FRQ. The Revenue for the period was used as proxy for this, while logarithmic transformation of the figures was done.

DATA PRESENTATION AND ANALYSIS

4.1

Table 4.2.1

Descriptive Statistics of Panel Data					
	N	Minimum	Maximum	Mean	Std. Deviation
Closing Asset	240	-42217000	2104360539000	97980186062.50	244723661059.145
Net Income	240	-7217001000	196678391000	7714162720.83	22980206048.381
Revenue	240	0	1066868054000	46744859982.64	111275279191.731
Closing Equity	240	-1169736000	545064392000	38669278896.83	77688973117.889
Gross Profit	240	-874099000	291287000000	15426091622.96	40252283017.250
Audit Quality	240	0	1	.88	.322
Valid N (listwise)	240				

Source: SPSS Ver. 23

Table 4.2.1 shows the Panel (or longitudinal) of various manufacturing firms. Panel data are cross-sectional and time-series (Park, 2009). There are multiple entities, each of which has repeated measurements at different time periods (Park, 2009). Shown above is the mean (a measure of central tendency) and standard deviation of the panel data set.

4.2 Test of Hypotheses

4.2.1: Multiple Logistic Regression Analysis showing the relationship between FRQ and ROA, REV & FMS amongst Manufacturing Firms in Nigeria

Hypothesis One:

H_1: There is a significant effect of financial reporting quality on return on assets of manufacturing companies

Table 4.2.1a

Case Processing Summary			
Unweighted Cases[a]		N	Percent
Selected Cases	Included in Analysis	181	75.4
	Missing Cases	59	24.6
	Total	240	100.0
Unselected Cases		0	.0
Total		240	100.0
a. If weight is in effect, see classification table for the total number of cases.			

Table 4.2.1b

Dependent Variable Encoding	
Original Value	Internal Value
Does not engage any of the Big-4	0
Engage any of the Big-4	1

Table 4.2.1c

	Observed		Predicted		
			Audit Quality		Percentage Correct
			0	1	
Step 0	Audit Quality	0	0	18	.0
		1	0	163	100.0
	Overall Percentage				90.1

Classification Table[a,b]

a. Constant is included in the model.
b. The cut value is .500

Table 4.2.1d

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	25.191	3	.000
	Block	25.191	3	.000
	Model	25.191	3	.000

Table 4.2.1e

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	92.049[a]	.130	.273

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

Table 4.2.1f

Classification Table[a]

	Observed		Predicted		
			Audit Quality		Percentage Correct
			0	1	
Step 1	Audit Quality	0	4	14	22.2
		1	3	160	98.2
	Overall Percentage				90.6

a. The cut value is .500

Table 4.2.1g

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	FMS	-.187	.408	.210	1	.647	.829
	REV	1.298	.348	13.935	1	.000	3.662
	ROA	3.313	1.367	5.879	1	.015	27.478
	Constant	-8.622	4.339	3.948	1	.047	.000

a. Variable(s) entered on step 1: FMS, REV, ROA.

Source: SPSS Ver. 23

The result of the multiple regression analysis for the variables influencing the Financial Reporting Quality (FRQ) is summarized in Table 4.2.1a-g above.

Table 4.2.1a shows that there are 181 cases (75.4%) used in the analysis while missing case reported 59 (24.6%) bringing the total cases to 240

From Table 4.2.1c and given the base rate of the two decisions option (18/240 = 7.5%) of sampled company does not engage the services of any of the Big-4 Auditing Firms while (163/240 = 67.92%) of sampled company engaged the services of one of the Big-4 Auditing Firms. This entails that over 60% of listed companies under the manufacturing sector engage the services of any of the Big-4 Auditing firms and can to a great extent be assured of quality audit.

Table 4.2.1d shows a chi-square of 25.191 at 3-df, and significance beyond .001 shows that the model is dependable and reliable.

Also, from table 4.2.1e The Nagelkerke R Square is .273 this means that 27.3% of audit quality is explained by the independent variables, ROA.

Table 4.2.1f shows that the model classified the data accurately 90.6% of the time for the companies audited by the big four the model classified the data accurately 98.2% of the time (150 out of 126 audited by the big four).

Overall on a weighted average basis the model classified the data correctly 90.6% of the time which is greater than the cut off value of 50%. Also the value of 98.2% correct classification for the Big-4 audited companies is greater than the cut off value of 50%. We conclude that the result of the test shows that the model is dependable and reliable and can be relied upon in making inferences.

From table 4.2.1g, the relevant variable is ROA. Also from the table the returns on Assets is positively related to audit quality (B coefficient= 3.313). The table also shows that the relationship is statistically significant at 0.005 level (.015).
Thus, we reject the null hypothesis and conclude that there is a significant effect of financial reporting quality on return on assets of manufacturing companies

4.2.2:   Multiple Logistic Regression Analysis showing the relationship between FRQ and ROE, REV & FMS amongst Manufacturing Firms in Nigeria

Hypothesis Two:

There is a significant effect of financial reporting quality on return on equity of manufacturing companies

Table 4.2.2a

	Omnibus Tests of Model Coefficients		
	Chi-square	df	Sig.
Step 1 Step	22.228	3	.000
Block	22.228	3	.000
Model	22.228	3	.000

Table 4.2.2b

	Model Summary		
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	95.012[a]	.116	.242
a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.			

Table 4.2.2c

	Classification Table[a]			
Observed			Predicted	
		Audit Quality		Percentage Correct
		0	1	
Step 1	Audit Quality 0	3	15	16.7
	1	1	162	99.4
	Overall Percentage			91.2
a. The cut value is .500				

Table 4.2.2d

		Variables in the Equation					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	FMS	-.210	.384	.299	1	.585	.811
	REV	1.264	.328	14.855	1	.000	3.540
	ROE	-.047	.072	.416	1	.519	.954
	Constant	-7.946	4.146	3.674	1	.055	.000
a. Variable(s) entered on step 1: FMS, REV, ROE.							

Source: SPSS Ver. 23

From the Analysis above, Table 4.2.2a shows a chi-square of 22.228 at 3-df, and significance beyond .001 shows that the model is dependable and reliable.
Also, from table 4.2.2b The Nagelkerke R Square is .242 this means that 24.2% of audit quality is explained by the independent variables, ROE.

Table 4.2.2c shows that the model classified the data accurately 91.2% of the time for the companies audited by the big four the model classified the data accurately 99.4% of the time (150 out of 179 audited by the big four).

Overall on a weighted average basis the model classified the data correctly 91.2% of the time which is greater than the cut off value of 50%. Also the value of 99.4% correct classification for the Big-4 audited companies is greater than the cut off value of 50%. We conclude that the result of the test shows that the model is dependable and reliable and can be relied upon in making inferences.

From table 4.2.2d, the relevant variable is ROE. Also from the table the returns on Assets is negatively related to audit quality (B coefficient= -.047). The table also shows that the relationship is not statistically significant at 0.005 level (.519).

Thus, we accept the null hypothesis which upheld that there is no significant effect of financial reporting quality on return on equity of manufacturing companies

4.2.3: Multiple Logistic Regression Analysis showing the relationship between FRQ and NPM, REV & FMS amongst Manufacturing Firms in Nigeria.

Hypotheses Three:

There is a significant effect of financial reporting quality on net profit margin of manufacturing companies

Table 4.2.3a

Omnibus Tests of Model Coefficients		Chi-square	df	Sig.
Step 1	Step	26.547	3	.000
	Block	26.547	3	.000
	Model	26.547	3	.000

Table 4.2.3b

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	90.693[a]	.136	.286
a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.			

Table 4.2.3c

Classification Table[a]					
Observed			Predicted		
			Audit Quality		Percentage Correct
			0	1	
Step 1	Audit Quality	0	5	13	27.8
		1	1	162	99.4
	Overall Percentage				92.3
a. The cut value is .500					

Table 4.2.3d

Variables in the Equation		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	FMS	-.089	.430	.043	1	.837	.915
	REV	1.033	.382	7.324	1	.007	2.810
	NPM	.075	.037	4.016	1	.045	1.078
	Constant	-6.877	4.248	2.621	1	.105	.001
a. Variable(s) entered on step 1: FMS, REV, NPM.							

Source: SPSS Ver. 23

The Analysis above shows from table 4.2.3a that a chi-square of 26.547 at 3-df, and significance beyond .001 shows that the model is dependable and reliable.

Also, from table 4.2.3b The Nagelkerke R Square is .286 this means that 28.6% of audit quality is explained by the independent variables, NPM.

Table 4.2.3c shows that the model classified the data accurately 92.3% of the time for the companies audited by the big four the model classified the data accurately 99.4% of the time (150 out of 179 audited by the big four).

Overall on a weighted average basis the model classified the data correctly 92.3% of the time which is greater than the cut off value of 50%. Also the value of 99.4% correct classification for the Big-4 audited companies is greater than the cut off value of 50%. We conclude that the result of the test shows that the model is dependable and reliable and can be relied upon in making inferences.

From table 4.2.3d, the relevant variable is NPM. Also from the table the net profit margin is positively related to audit quality (B coefficient= .075). The table also shows that the relationship is not statistically significant at 0.005 level (.045).

Thus, we reject the null hypothesis and conclude that there is a significant effect of financial reporting quality on net profit margin of manufacturing companies

4.2.4: Multiple Logistic Regression Analysis showing the relationship between FRQ and GPM, REV & FMS amongst Manufacturing Firms in Nigeria.

Hypotheses Four:
There is a significant effect of financial reporting quality on gross profit margin of manufacturing companies

Table 4.2.4a

		Omnibus Tests of Model Coefficients		
		Chi-square	df	Sig.
Step 1	Step	28.618	3	.000
	Block	28.618	3	.000
	Model	28.618	3	.000

Table 4.2.4b

		Model Summary		
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	88.622[a]	.146	.307
a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.			

Table 4.2.4c

	Observed			Predicted		
				Audit Quality		Percentage Correct
				0	1	
Step 1	Audit Quality	0		3	15	16.7
		1		1	162	99.4
	Overall Percentage					91.2
a. The cut value is .500						

Classification Table[a]

Table 4.2.4d

		Variables in the Equation					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	FMS	.010	.392	.001	1	.980	1.010
	REV	1.616	.376	18.433	1	.000	5.033
	GPM	3.106	1.063	8.528	1	.003	.045
	Constant	-12.553	4.461	7.920	1	.005	.000
a. Variable(s) entered on step 1: FMS, REV, GPM.							

Source: SPSS Ver. 23

From table 4.2.4a that a chi-square of 28.618 at 3-df, and significance beyond .001 shows that the model is dependable and reliable.

Also, from table 4.2.4b The Nagelkerke R Square is .307 this means that 30.7% of audit quality is explained by the independent variables, GPM.

Table 4.2.4c shows that the model classified the data accurately 91.2% of the time for the companies audited by the big four the model classified the data accurately 99.4% of the time (150 out of 179 audited by the big four).

Overall on a weighted average basis the model classified the data correctly 91.2% of the time which is greater than the cut off value of 50%. Also the value of 99.4% correct classification for the Big-4

audited companies is greater than the cut off value of 50%. We conclude that the result of the test shows that the model is dependable and reliable and can be relied upon in making inferences.

From table 4.2.4d, the relevant variable is GPM. Also from the table the gross profit margin is positively related to audit quality (B coefficient=3.106). The table also shows that the relationship is not statistically significant at 0.005 level (.003).

Thus, we reject the null hypothesis and conclude that there is a significant effect of financial reporting quality on gross profit margin of manufacturing companies.

5.1   Conclusion

Financial Reporting Quality is a crucial yardstick in determining investors' choices and decisions. A reliable financial reporting would enhance the credibility of these statements. Our findings generally corroborate this. To strengthen Financial Reporting Quality is to ensure Sound Audit on the financial statements and other such like measures to ensure a fair reporting and rest by the stakeholders of the firm. This study was aimed at providing empirical evidence on the relationship between Financial Reporting Quality and Financial Performance amongst manufacturing companies in Nigeria. The results show a positive relationship between Financial Reporting Quality and Financial Performance.

From the study, it was specifically revealed that;

1. There is a positive relationship between Financial Reporting Quality and Returns on Assets (ROA) of selected manufacturing firms. The Pearson bivariate results showed that the nature of relationship between Financial Reporting Quality and Returns on Assets was positive and statistically significant; and,
2. There is a negative relationship between Financial Reporting Quality and Returns on Equity (ROE) of selected manufacturing firms. The Pearson bivariate results showed that the nature of relationship between Financial Reporting Quality and Returns on Equity was negative and non-statistically significant;
3. There is a positive relationship between Financial Reporting Quality and Net Profit Margin (NPM) of selected manufacturing firms. The Pearson bivariate results showed that the nature of relationship between Financial Reporting Quality and Net Profit Margin was positive and statistically significant;
4. Finally, there is a positive relationship between Financial Reporting Quality and Gross Profit Margin (GPM) of selected manufacturing firms. The Pearson bivariate results showed that the nature of relationship between Financial Reporting Quality and Gross Profit Margin was positive and statistically significant.

Firm size and Sales effect, among other factors, improve the reporting earnings quality. Results indicate that firm size leads to the improvement of the reporting quality directly, which might stem from the increase in monitoring of corporate performance.

5.2   RECOMMENDATIONS

Based on the findings of this study, the following recommendations are here given:

1. The timeliness of audited corporate annual financial reports is considered to be a crucial and an essential factor affecting the usefulness of information made available to various users. Thus accounting information is required to be made available within a short period of time from the end of the reported period; otherwise, it loses some of its economic and credible value. Therefore, reducing audit delays and improving timeliness of audit reports is of great importance and should be recognized by the accounting profession, users of accounting information, and regulatory and professional agencies as an important characteristic of financial accounting information.
2. More so, the use of joint auditors is also encouraged, as the volume of transactions in most Nigerian firms are constantly increasing, the possibility of efficiency and effectiveness in audit might be likely eroded. This phenomenon can be curbed through the use of joint Auditing Firms. That is jointly engaging the services of any of the Big-4 Auditing Firms and any other non-multinational Auditing Firms. This will ensure efficiency and timeliness of Audit function and generally guaranteeing the Reporting Quality of companies.
3. Furthermore, appointing outside directors to the board is an effective board leadership style to reduce the agency problem and increase reporting quality. This finding is in agreement with (Peasnell, Pope, &

Young, 2000; Klein, 2002). Where is was asserted that appointing outside directors to the board appears to be an effective corporate governance mechanism to reduce the agency problem and increase earnings quality (Peasnell, Pope, & Young, 2000; Klein, 2002).

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