

MODERATING EFFECT OF REGULATORY REQUIREMENTS ON AUDIT ATTRIBUTES OF FINANCIAL REPORTING QUALITY

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ABSTRACT

This study examined the moderating effect of regulatory requirements on audit attributes of financial reporting quality. This study adopted an Expost-facto longitudinal design with population of forty-seven (47) insurance firms listed in the Nigerian exchange Group (NXG), the sample size for the study is 42. The sample size was mathematically derived using the Taro Yamen's formula. The study relies on secondary source data for the study. The data was sourced from the published financial statements of the selected listed insurance firms. The data collected was span for ten (10) years' period from 2013 to 2022. The study revealed that audit firm size has a weak positive correlation with financial reporting quality, also the study revealed that audit fee has a weak positive correlation with financial reporting quality. On the other hand, Regulatory Quality (RGQ) has a weak positive correlation with financial reporting quality. The study concluded the amount of audit fees does not have a significant impact on financial reporting quality though the impact is positive, suggesting that higher fees do not necessarily lead to better audit outcomes. Also, regulatory quality positively and significantly impacts financial reporting quality. This underscores the importance of a strong regulatory framework in ensuring high standards of financial disclosures. It is recommended that Insurance companies should not rely solely on audit fees as a measure of audit quality but should also consider the firm's reputation, expertise, and regulatory compliance. Audit committees should establish clear criteria for auditor selection that go beyond fee considerations. Also, regulators should develop guidelines that enhance auditor independence, particularly in situations where regulatory quality is strong, to maximize the benefits. This could be done through regulatory updates and periodic audits of independence practices by industry regulators.

Keywords: Audit firm size, Audit fee, financial reporting quality, Regulatory Quality

INTRODUCTION

Globally, there is a shift in business environment occasioned by the unending mirage of accounting scandals that has led to fundamental questions on how agency conflict is managed in corporate institutions (Farinha,

2003). The scandals have re-echoed theorist and stakeholder's arguments on interest of managers, and their effectiveness in ensuring the increased performance and sustainability of firms. This thus explains the growing number of researches and studies around the need for audit, its quality and process effectiveness. Consequently, Antle and Nalebuff (1991)

suggested a combined statement of both managers and auditors, as the efficacy of the communication will be impacted by the quality of the audit. However, Adeniyi and Mieseigha, (2013) opined that this is only possible when the manager is confident that the independence and integrity of the audit process has been maintained. The quality of the audit helps the manager have an unbiased confidence in the report, knowing that it reflects the true financial position of the organisations per time (Bell et al., 2015). This is because the quality of the audit is principal to the integrity of the audit process, thus, implying that maintaining the integrity of the audit process is critical for auditors, as it is also in conformity with extant laws of the accounting profession (Adeyemi et al., 2012).

There has been no generally acceptable definition of the concept of audit quality, and this has led to varying perspectives on the construct and its measurement. This varying perspective has been traced to the lack of uniform auditing approach and the inability of international accounting bodies, such as the International Federation of Accountants (IFAC) and American Institute of Certified Public Accountants (AICPA) to develop a framework on the construct. However, scholars have made an effort to define audit quality as the external auditor's responsibility in detecting anomaly in a firm's financial statements and attempting to ensure that it is made known to statements users (DeAngelo, 1981). Further, Abbott et al. (2015) held that audit competence has to do with the depth of knowledge and skills of the audit firm to meet their client's demand. Nwanyanwu (2017) stated that the technical capacity of the auditor is linked to the extent of the audit quality of the firm. Another factor that has been linked to account for audit quality is the audit fee (Kraub, Pronobis & Zülch, 2015). The amount the firm is willing to pay would determine the quality of audit that would be undertaken (Krauss & Zülch, 2013). When firms are not willing to cover the fees of reputable audit firms, it leaves them with incompetent firms that may not have the capacity to effectively carry out the audit process and deliver quality.

Also, there have been indication that keeping an audit firm for too long could be both good and

bad (Jenkins & Velury, 2012). It can be beneficial as the auditors would over time get to know the company even more than the managers and provide certain professional advice. However, it can be disadvantageous for a prolonged audit tenure, as it could open them up to over familiarity that could affect the audit and the financial reporting quality (Azizkhani, Monroe & Shailer 2013; Geiger & Raghunandan, 2002). Financial reporting quality has been seen as the exact manner in which financial statement shows information as regards a business activity and its anticipated cash flows, with the aim of informing the shareholders about the company's operations (Tang, Chen & Lin, 2016). Also, Bigus and Hillebrand (2017) stated that the board member's ability to make sound and effective decision depends on the quality of information that is available to them. This is because limited information weakens the board member's ability to effectively monitor and evaluate manager's actions and decisions (Bhuiyan et al., 2020).

Regulatory quality measures the presence and scope of regulations that facilitate doing business. It includes regulations in various areas of conducting business, for instance, starting a new business, paying taxes, and investing (Nagaraj & Zhang, 2019). Sound policies that make it easier for firms to conduct business, encourage foreign investment, and promote financial openness. Every new regulation is an addition to an existing system of regulations and might be connected to regulations in other sectors as well (Van Stel, Storey & Thurik, 2007). As a boundary condition that interacts between audit quality and financial reporting quality relationship, there is a tendency that it could act as a catalyst to financial integration, which in turn could lead to lower cost of capital. However, confirming this interaction effect and explaining how it would occur has remained evasive in literature. It is on this premise that this study seeks to assess the effect of audit attributes on financial reporting quality of listed insurance in Nigeria.

Globally, the insurance sector is a major sector in any economy and contributes in not just financial services delivery but also to employment generation (Nwosa & Mustapha,

2018). The sector is a critical avenue through which small businesses and other large business ventures gain support. Thus, the need for a greater attention on their activities, as bankruptcy would not just affect the shareholders, customers, employees alone but the economy in general. The fall of major corporations in developed economies such as Enron Corp, World Com, and Barings have called to question the process and quality of audit (Ikpantan & Daferighe, 2019). There are instances where major auditing firms such as PricewaterhouseCoopers (PwC), Arthur Andersen among others, have been made to pay huge lawsuit cost and even made to make compensation to creditors on account of their negligence and advising in auditing (Alareeni, 2018). Thus, creating palpable worry among financial expert on this growing trend of corporate fraud in organisations.

In Nigeria, the situation is not in any way better, as there have been cases of clean bill of health issued by auditing firms to insurance firms' financial statements only for them to go under less than a year. The insurance sector has had a greater share of this challenge, as evident with the takeover of insurance firms, such as, Trustworld Insurance Company Limited, The Lion of Africa Insurance Company Limited, Sun Insurance Nigeria Plc, Metropolitan General Insurance Company Limited among others that were certified clean and even reported profit but in less than six months were taken under. This has called into question the audit quality and that of the firms that handled the process, as the aftermath effect of these scandals has occasioned a fall in investors' confidence, shareholders loss, international partners fear and most importantly, an adverse effect on the economy. Thus, prompting the need to ascertain what effect would audit quality have on the financial quality of insurance firms. Further, there is a theoretical debate on the measures of audit quality, as there seems to be a lack of consensus on what measure to adopt towards measuring audit quality. Also, there have been inconsistencies

in the findings on some of the measures of audit quality on financial reporting quality (Ikpantan & Daferighe, 2019; Malai & Rajamangala, 2015; Salau & Ayoib, 2016), thus, intensifying scholarly calls for further research towards identifying other underlying variable(s) that could account for the inconsistencies in findings (Khan, 2006). Hence, this justifies the current study effort of assessing regulatory requirements as the moderating variable that explains the interaction between audit attributes and financial reporting quality. In addition, previous research on the subject matter has mainly focused on commercial banks (Abbaszadah, 2017; Gehya, 2019), with little studies carried out using insurance firms in Nigeria, therefore giving rise to the need for this study.

Hence, there is a need to close this gap, as it will be useful for regulatory bodies in the Nigerian insurance sector to proscribe certain audit process that opens the financial statement to misrepresentation and compel stringent corporate governance measures in order to have an efficient financial reporting in Nigeria. It is on that premise that this investigation is focused on unravelling the antecedent moderating effect of regulatory requirements on audit attributes on financial reporting quality using listed insurance firms in Nigeria.

Objectives of the Study

- i. investigate the effect of audit size on discretionary accruals of insurance firms;
- ii. evaluate the moderating effect of regulatory requirements on audit size and discretionary accruals of insurance firms;
- iii. assess the extent audit fees affect discretionary accruals of insurance firms;
- iv. assess the moderating effect of regulatory requirements on audit fees and discretionary accruals of insurance firms?

audit processes. Recent studies have explored various definitions and frameworks to categorize these attributes, each emphasizing aspects such as auditor competence, independence, and organizational characteristics. One foundational perspective,

LITERATURE REVIEW

Concept of Audit Attributes

Audit attributes, often referred to as factors of audit quality, define key elements that contribute to the reliability and effectiveness of

detailed by Knechel et al. (2013), defines audit quality by the auditor's capacity to detect and report material misstatements. This dual capacity is influenced by the auditor's technical skills and objectivity, crucially shaped by regulatory requirements and organizational pressures. Similarly, DeFond and Zhang (2014) expand on these factors by categorizing audit quality indicators into six areas, such as client demands and regulatory interventions, which influence both the auditor's performance and client satisfaction. Each of these indicators plays a role in either the detection or reporting aspects of the audit, affecting overall quality (Knechel et al., 2013; DeFond & Zhang, 2014).

The International Auditing and Assurance Standards Board (IAASB) further defines key elements in its framework, suggesting that attributes such as audit process rigor, team expertise, and the application of professional skepticism are vital for audit quality. The IAASB framework aims to help stakeholders including audit firms and regulators enhance audit quality through greater attention to the structured evaluation of audit performance, team dynamics, and the auditor's independence (IAASB, 2014). Further perspectives on audit quality emphasize attributes related to auditor characteristics, audit process integrity, and external conditions. Jiang et al. (2024) highlight how audit partner traits like expertise, age, and geographic location significantly affect audit outcomes. These attributes impact both audit partner selection and the perceived reliability of financial statements. Similarly, frameworks by the Public Company Accounting Oversight Board (PCAOB) and the International Auditing and Assurance Standards Board (IAASB) underscore rigorous process standards and auditor independence as fundamental attributes influencing audit quality and investor trust in audits (IAASB, 2014; Jiang et al., 2024).

Additionally, Gaynor et al. (2016) highlight the importance of audit inputs, such as the quality of audit personnel, and outputs, like audit opinion accuracy, as metrics of audit quality. These inputs and outputs relate to both the processes followed by the audit team and their individual competencies, impacting the perceived and actual quality of the audit service. These recent perspectives emphasize that audit quality is best understood through multiple dimensions, including process,

regulatory standards, and specific attributes of both audit firms and individual auditors. One prominent view, based on Knechel et al. (2013), considers audit quality as largely shaped by two main factors: the auditor's ability to detect material misstatements and the likelihood of reporting them. This definition underscores auditor competence and independence as critical attributes (Knechel et al., 2013; Kilgore & Martinov-Bennie, 2014). Research highlights that competence encompasses knowledge of the client's industry and technical expertise, while independence refers to the ability to remain objective throughout the audit.

Another perspective provided by Abdelrahim and Al-Malkawi (2022) focuses on internal audit effectiveness within organizational settings, identifying attributes such as internal audit processes, resources, and coordination with other assurance functions. Their study emphasizes that a systematic and well-coordinated audit function enhances audit quality by improving organizational controls and reducing risk (Abdelrahim & Al-Malkawi, 2022). These attributes are perceived differently by stakeholders like auditors, directors, and CFOs. Studies show that, while stakeholders broadly agree on the importance of attributes like auditor independence, perspectives vary on aspects like the size of the audit firm or non-audit services provided (Kilgore et al., 2014).

DeAngelo (1981) established an enduring definition by emphasizing that audit quality depends on an auditor's ability to detect issues and willingness to report them, highlighting both competence and independence. Building on this, Knechel et al. (2013) proposed a process-based framework that examines quality through inputs (e.g., auditor expertise), processes (e.g., engagement procedures), outputs (e.g., audit reports), and context. This framework aligns with modern audit practices by assessing each phase of the audit cycle, allowing for a comprehensive evaluation of quality (Detzen & Gold, 2020). Research by Kilgore et al. (2011) extended this model by quantifying attributes like partner tenure, team expertise, and industry specialization, linking them directly to client satisfaction and engagement quality. Their work underscores how audit quality perception varies by stakeholder role, with clients valuing aspects

like value-added auditing and communication frequency (Martinov-Bennie & Kilgore, 2014).

In recent studies, Sulaiman (2023) highlighted tensions in audit quality between economic considerations and compliance, noting that partners often balance client expectations with regulatory demands. This ongoing shift in quality perceptions reflects a need for adaptive models that can account for diverse stakeholder views and complex regulatory landscapes.

Concept of Audit Firm Size

Size of an auditing firm signifies distinct categories of attributes. It was assumed that size (Big 4, Big 5, Big 6, Big 8) signified prestige, international reach, and integrity, all of which were disclosed in the audit report pertaining to their clients' accounts (Okolie, 2014). The scope of services offered, the quantity of clients served, and the number of clients served are all influenced by the scale of the organisation. It is generally assumed that a sizable audit firm offers a diverse array of services and garners a greater clientele (Makarem, 2011). In addition, their greater expertise and resources frequently enable larger audit firms to provide specialised services like forensic accounting and risk management. Clients who require these particular services and are prepared to pay a premium for them may find this appealing. Furthermore, an organization's reputation and credibility within its industry may be affected by its scale. Greater client confidence in the dependability and trustworthiness of larger firms may result in increased business and a more extensive clientele.

Alongside providing specialised services, larger audit firms frequently maintain

According to Choi et al. (2010), there exists a significant positive correlation between firm size and quality, as larger firms provide higher quality services in comparison to smaller firms. Moreover, the provision of quality services results in higher fees. Dehkordi and Makarem (2011) concurred that the character of services rendered is influenced by the size of the audit firm. It is believed that larger audit firms offer more sophisticated services than smaller audit firms due to their greater financial stability and access to assets, which enable them to promote their services and enhance their reputation. Large corporations have much to lose if they fail to maintain professionalism and quality;

established connections with industry-critical stakeholders, including financial institutions and regulators. Smaller firms might not have the means to provide clients with access to such valuable resources and insights through these connections. Furthermore, the magnitude of an organisation may serve as an indicator of its financial prowess and stability, thereby fostering customer confidence in the pursuit of a sustained collaboration. Industries that are susceptible to regulatory scrutiny or volatility may find this perception of stability and financial strength especially significant. In general, the magnitude of an audit firm's operations can substantially influence its capacity to retain clients and uphold a favourable standing within the field (Bahaaeddin, 2018). Furthermore, larger audit firms frequently benefit from a worldwide reach, which enables them to provide services to clients across various jurisdictions and effectively navigate intricate international regulations. This can prove particularly advantageous for multinational enterprises that necessitate audits across multiple nations. Additionally, a firm's magnitude may serve as an indicator of its capacity to procure exceptional personnel and invest in state-of-the-art technology, both of which contribute to the enhanced quality and efficacy of the audit procedure. Potentially, clients would be more inclined to select a larger firm that possesses a workforce comprised of seasoned professionals and cutting-edge technological solutions. The magnitude of an audit firm can significantly influence a client's decision-making process and exert a substantial influence on the firm's performance within a fiercely competitive market.

consequently, they make substantial investments to preserve their reputation (Bahaaeddin, 2018).

Concept of Audit Fees

Audit fees refer to the payments made to auditors for their services, primarily influenced by factors such as the complexity, size, and risk associated with the client's business. DeAngelo (1981) initially defined audit fees as the costs associated with an auditor's engagement, influenced by the auditor's independence and competence. More recent studies, such as those by Hay (2013), add that these fees also reflect

the time, resources, and expertise needed to perform high-quality audits, with complexities like a company's regulatory environment and internal control quality further impacting costs.

Knechel et al. (2013) describes audit fees as compensation that varies based on client-specific risks, auditor experience, and market competition. Factors such as industry specialization and auditor reputation play significant roles, as auditors with higher reputations often command premium fees, reflecting their added value in reducing perceived audit risk (Hay, 2013; Ettredge et al., 2014). The concept of fee "lowballing" also impacts definitions of audit fees, where auditors offer lower fees to win engagements but may reduce service quality as a result. Research suggests that while low fees might help gain initial engagements, they can also lead to potential conflicts with audit quality, as firms may cut corners to manage reduced budgets (Ettredge et al., 2014).

Kamal Naser and Rana Nuseibeh (2007) emphasize that audit fees are significantly influenced by an organization's complexity and size, as well as by the audit firm's reputation and the client's industry. They found that more complex or risky client organizations tend to incur higher audit fees due to the increased work required to manage audit risks associated with such entities. Other factors, like profitability, can also influence fees, although they found some factors, like fiscal year-end timing, were less impactful in emerging economies like Jordan. Similarly, early work by Simunic (1980) provided a foundational model indicating that audit fees reflect a combination of the auditor's labor costs (e.g., hours worked) and hourly rates, highlighting size and complexity as core determinants. In more recent studies, researchers continue to validate that fees generally rise with client size and risk, suggesting a multiplicative relationship between fees and these variables to account for the increasing costs associated with larger organizations and higher-risk audits.

Thus, while definitions of audit fees consistently involve payment for auditing services, the determinants shaping the amount are extensive and vary based on organizational and contextual factors (Naser & Nuseibeh, 2007; Simunic, 1980). According to Pong and Whittington (2007), these fees are determined

by factors such as the auditee's size and complexity, auditor reputation, and specific risks associated with the client's industry. In particular, larger and more complex firms, often with numerous branches or international subsidiaries, tend to pay higher fees as their audits require more resources and expertise. Further, Al-Mutairi et al. (2017) emphasize that client size and complexity are primary determinants, where larger organizations necessitate extensive audit procedures, more time, and a higher level of expertise due to complex internal structures. This finding is consistent with prior foundational work by Simunic (1980), who highlighted that audit fees are generally set according to the client's inherent risk level, the amount of work required, and the degree of auditor liability involved in each engagement. Audit fees are also impacted by profitability, with more profitable companies often paying higher fees as auditors are expected to thoroughly verify income statements and other financial reports to ensure transparency (Ahmed & Abdullah, 2016). As Naser and Nuseibeh (2008) also noted, highly complex businesses are charged higher fees due to the specialized skills and time required to manage the audit risks effectively.

Financial Reporting Quality

It is critical for investors and other stakeholders to have accurate financial reporting in order to make well-informed decisions regarding a business. A financial report of superior quality furnishes precise and dependable data pertaining to the financial performance of an organisation as well as its capacity to fulfil its financial commitments. Conversely, investors might develop a reluctance to invest or conduct business with a company whose financial report is unsatisfactory or deceptive. Hence, in order to uphold transparency and foster confidence among stakeholders, it is critical to guarantee the production of financial reports of superior quality. The processes of the organisation are mirrored in the income statement, balance sheet, and other financial documents. The comprehensive documents are commonly known as the financial report of the organisation (Francis, 2004).

They function as a virtuous and instructive method of uncovering the operational

effectiveness of an organisation. These documents hold significance for all shareholders as they provide them with insights into the organisation and enable them to make informed and prudent decisions (Eilifsen, Messier, Glover & Prawitt, 2012). The financial reports of an organisation are of interest to and utilised by a wide range of individuals, including shareholders, management, clients, the government, creditors, dealers, and employees. To illustrate, let us contemplate a publicly traded corporation that divulges its yearly financial statement. This report can be utilised by shareholders to evaluate the financial well-being of the company and formulate knowledgeable judgements regarding the purchase or sale of stock. The report can be analysed by management in order to identify potential enhancement areas and formulate future strategic decisions. The report may be subject to review by government agencies in order to verify adherence to regulations and tax obligations.

The financial stability of a company can be assessed by creditors prior to the granting of loans or credit terms. The report enables suppliers and dealers to evaluate the organization's capacity to remit payments in a punctual manner and secure debts. Furthermore, prospective investors have the ability to assess the viability of the company as an investment opportunity by examining the financial report. Critical information including revenue, expenses, profit margins, and cash flows is contained in the report. Additionally, it enables them to assess the company's performance in relation to its industry rivals. In the realm of business, the annual financial report serves a crucial function in promoting accountability and transparency, thereby assisting a multitude of stakeholders in making informed judgements.

Empirical Review

Audit Firm Size and Financial Reporting quality

Usman (2014) assessed the extent to which financial reporting quality is dependent on audit firm size. The study focused on food and beverages companies in Nigeria. The study sourced data from the yearly accounts and reports from selected firms. Correlational

research design was employed by the researcher and used random effect regression method to analyze the sourced data. The study found that financial reporting quality is positively and significantly affected by audit firm size. The study was focused on food and beverages companies which is dissimilar from the present study as it is directed towards the insurance sector in Nigeria.

An investigation of the influence of audit firm size on financial reporting quality in Iran was conducted by Kaklar, Kangarlouei and Motavassel, (2012). Descriptive-correlation design was adopted and data was collected from the notes and financial statements of some selected companies in Iran and audit reports from selected firms. The study established a weak and negative correlation between audit firm size and financial reporting quality. The study was carried out in Iran whereas, the present study is being carried out in Nigeria.

Geoffrey (2020) aimed at establishing a relationship between audit firm size and financial reporting quality from a sample size of 70 firms which were listed on the Nigerian Stock Exchange from 2010-2018, and adopted Dechow and Dichev model for the study. The researcher found that financial reporting quality is significantly and positively affected by audit firm size. The study sampled the firms listed on the Nigerian Stock Exchange while the present study is directed towards the insurance sector in Nigeria.

Umobong and Ibanichukwu (2017) gathered data from the food and Nigerian food and beverage companies, and tested the hypothesis highlighted in the study through ordinary least square regression analysis. The result of the data analysis carried out, showed that financial reporting quality is positively and significantly related to audit firm size. The study used the Nigerian food and beverage companies as case study which is dissimilar from the present study which is more focused on the Nigerian insurance sector.

Audit Fee and Financial Reporting quality

Abbaszadah (2017) obtained data from the family firms in Iran and used multivariate regression technique to analyze the influence of audit fees on financial reporting quality. Results from the data analysis carried out showed that financial reporting quality is significantly

influenced by audit fees. The researcher carried out the research in Iran and used the Tehran Stock Exchange as a case study while the present researcher is interested in closing the gap of limited literature in the Nigerian insurance sector.

An assessment of the influence of audit fees on financial reporting quality was carried out by Bala, Amran and Shaari (2018). The study sampled 88 firms in Nigeria from 2012 to 2016. The research data was gotten from the yearly reports of some selected firms and also from the DataStream of Thompson Reuters. The study adopted accruals model to represent quality financial reporting and the estimation model was carried out through multiple regression technique and found that financial reporting quality is significantly dependent on audit fees. The study covered the entire listed firms in Nigeria while the present study is focused mainly on the insurance sector in Nigeria.

A correlation of audit fees to financial reporting quality in Nigeria was conducted by Salau and Ayoib (2016). Generalized Methods of Moment estimation was adopted for the study. The researcher collected secondary data from some selected firms and analyzed the data using descriptive statistics and regression analysis. It was found that financial reporting quality is significantly and positively influenced upon by audit fees. The study was focused on the listed firms in Nigeria, while the present study intends

This situation gives rise to a conflict of interest, as the managers may give higher importance to their own personal goals and ambitions rather than the goals and objectives of the organisation and its stakeholders. Jensen and Meckling suggest that this conflict might result in agency costs, which refer to the expenses borne by the principal to oversee and regulate the agent's behaviour, ensuring that it aligns with the principal's best interests. The expenditures mentioned can encompass expenses related to monitoring, bonding, and residual loss (Jensen & Meckling, 1976). For instance, within a corporation that is listed on the stock exchange, the managers could partake in high levels of risk in order to enhance their personal financial gain via stock options, without considering the potential adverse consequences for the shareholders.

to collect recent data strictly from the insurance sector.

Ikpantan and Daferighe (2019) employed ex-post-facto research design and collected data from the content analysis of published annual reports, accounts and notes to the financial statements of 10 Insurance firms. The researcher assessed the extent to which financial reporting quality is controlled by audit fees using descriptive, Pearson product moment correlation and linear multiple regression analysis. The study found that financial reporting quality is insignificantly controlled by audit fees. The study was carried out in the insurance sector.

Theoretical Framework

This study is underpinned by the agency theory which has been linked more to the works of Jensen and Meckling (1976). The presupposes that a relationship of agency exist when there is an indenture between a person or more for an individual (principal) to engage also a person known as the agent to carry out stated or given task on behalf of the principal (Clarke, 2004). The relationship indicates that authority would be vested to the agent to act for the principal (Clarke, 2004). The compelling issue of this theory is that, the organization managers work in their own interest and not the interest of the stakeholders.

METHODOLOGY

This study adopted an Expost-facto longitudinal design. The choice of the design is because it supports the use of previous data that will be collected at one time to be used as bases for analysis, the population study is the forty-seven (47) insurance firms listed in the Nigerian exchange Group (NXG). The sample size for the study is 42. The sample size was mathematically derived using the Taro Yamen's formula. The study relies on secondary source data for the study. The data was sourced from the published financial statements of the selected listed insurance firms. The data collected was span for ten (10) years' period from 2013 to 2022. This study adopted descriptive and multivariate panel data analysis in estimating the parameters of the study model.

Model Specification

The model is hereby specified to test the study hypothesis. The following model will be used to estimate the direct relationship between **IV** and the **DV**:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots \beta_n X_n + \varepsilon \dots \dots \dots \text{eq (i)}$$

$$FRQ = (AFS_{it}, AFE_{it},) \dots \dots \dots \text{eq (ii)}$$

Therefore:

$$FRQ = \beta_0 + \beta_1 AFS_{it} + \varepsilon_{it} \dots \dots \dots \text{eq (iii)}$$

$$FRQ = \beta_0 + \beta_2 AFE_{it} + \varepsilon_{it} \dots \dots \dots \text{eq (iv)}$$

The following is an extended model to estimate the moderating effect of regulatory quality.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_i Z \dots \beta_n X_n + \varepsilon \dots \text{eq (ix)}$$

Therefore:

$$FRQ = \beta_0 + \beta_1 AFS_{it} + \beta_2 AFE_{it} + \beta_1 RGQ_{it} (\beta_1 AFS_{it} + \beta_2 AFE_{it}) + \beta_3 FSIZE_{it} + \varepsilon_{it} \dots \dots \dots \text{eq (x)}$$

Where:

- FRQ = Discretionary accruals
- AFS = Audit firm size
- AFE = Audit fees
- RGQ = Regulatory quality

Result and discussion

Descriptive Statistics

Descriptive statistics provide a summary of the data used in the analysis, including the mean,

standard deviation, minimum, and maximum values of the variables. These statistics help to understand the general characteristics of the data set.

Table 4.1: *Descriptive Statistics*

Variables	Observations	Mean	Std. Dev.	Minimum	Maximum
FRQ	200	0.02855	0.2372	-0.4792	0.8816
AFS	200	0.59	0.4931	0	1
AFE	200	7.1506	0.2865	6.4393	7.7782
RGQ	200	-0.921	0.1166	-1.16	-0.68
FSIZE	200	10.0932	0.7314	5.5072	11.293

Note. Stata 14 output (2024)

Table 4.1 displays the calculated values for the mean, the standard deviation, the minimum and the maximum for each of the research variables for the 20 insurance firms during the period of the study from 2013 to 2022. The Table also

shows that the study has 200 firm-year observations for the study. The results on Table 4.1 The study shows that Financial Reporting Quality (FRQ) has mean 0.0286. This indicates that, on average, the discretionary accruals (a

measure of financial reporting quality) are relatively low. The low mean value indicates that, on average, the level of discretionary accruals (used as a proxy for financial reporting quality) is close to zero. This suggests that most companies do not engage heavily in earnings management practices, maintaining relatively transparent financial reporting.

The study shows that Audit Fee (AFE) has mean of 7.1506 which indicates that on average, the audit fees are moderately high. The average audit fee is moderately high, suggesting that companies are generally willing to pay for quality audits, which could enhance the reliability of financial reporting. While standard deviation is 0.2865 the indicates that there is a relatively low variability in the audit fees among the companies. A low standard deviation implies that there is little variation in audit fees among companies, indicating similar audit cost structures across the industry.

The study shows a minimum value of 6.4393 for audit fee. The lowest audit fee value suggests that some companies incur lower audit costs. The minimum audit fee suggests that some companies are spending less on audits, which could reflect smaller firm sizes or less complex audits. The maximum value is 7.7782 which is the highest audit fee is still close to the mean, indicating that most companies have similar audit fee levels. The maximum value is close to the mean, reinforcing the idea that audit fees do not vary significantly across firms.

the Table shows Regulatory Quality (RGQ) mean of -0.921, the mean is negative, suggesting lower regulatory quality. The

Correlation Matrix

VAR.	FRQ	AFS	AFE	RGQ	FSIZE	VIF
FRQ	1.0000					
AFS	0.1064	1.0000				1.76
AFE	0.2367	0.5036	1.0000			1.59
RGQ	0.0904	-0.1756	-0.0889	1.0000		1.82
FSIZE	0.0033	0.3406	0.5688	-0.5349	1.0000	1.97

Note. Stata 14 output

The study shows the correlation coefficients between the dependent variable and the independent variables in the study.

negative mean suggests that, on average, the regulatory quality is perceived to be low, potentially impacting the effectiveness of financial reporting standards and audit regulations. The standard deviation for RGQ is 0.1166 which indicates that there is low variability, indicating that regulatory quality is consistently low across companies. Furthermore, minimum of RGQ is -1.16, the lowest value shows very poor regulatory quality in some instances, which could adversely affect audit and financial reporting quality. Also, the Table shows maximum: -0.68 for RGQ, even the highest value is negative, reinforcing the low regulatory quality across the board.

Consequently, Table 4.1 shows that Firm Size (FSIZE) has mean of 10.0932 indicates that on average, firms are moderately sized. A mean value around 10 suggests that the average firm size is moderately large, which might provide more resources for robust financial reporting practices. In addition, the standard deviation: 0.7314 There is some variability in the size of firms suggesting that not all companies are of the same scale. Also, the Table shows minimum 5.5072 for firm size which indicates that the smallest firm size is relatively small, which could affect their capacity to implement strong financial controls and reporting. More so, the maximum is 11.293 suggests that the largest firm size is moderately large. It also implies that some firms are relatively large, indicating that some companies have significant resources, potentially aiding in better financial reporting and audit quality.

Furthermore, it shows the correlation matrix with the values displaying the Spearman correlation coefficient between all the pairs of

the study variables. The choice of the spearman rank correlation, over the Pearson correlation, is because the outcome of Shapiro Wilk test and Skewness and Kurtosis for normality indicates that most of the data are not normally distributed except AFS and AFE which are normally distributed. More so, Spearman rank correlation was chosen because it is non-parametric, making it robust to outliers and not requiring assumptions about normality of data distribution. This is valuable considering the potential presence of outliers in financial data.

The study revealed that AFS has a weak positive correlation with FRQ (0.1064), suggesting that larger audit firms might slightly contribute to better financial reporting quality. This implies that audit firms and financial reporting quality moves in the same direction. Similarly, the Table shows that AFE has a weak positive correlation with FRQ (0.0855), suggesting that higher audit fees are slightly associated with better financial reporting quality. Indicating that audit firm size and financial reporting quality moved in the same direction. The slight positive correlation between audit firm and FRQ indicates that employing larger audit firms may not significantly improve financial reporting quality, though it does suggest some benefit,

possibly due to resource availability and experience. More so a marginal positive correlation between audit fee and FRQ suggests that higher fees might reflect better quality audits, potentially due to more thoroughness and expertise. However, this also calls for monitoring fees to avoid excessive costs that do not proportionately translate to quality.

On the other hand, Regulatory Quality (RGQ) has a weak positive correlation with FRQ (0.0904), implying that better regulatory quality might slightly enhance financial reporting quality. The weak positive correlation with FRQ suggests that improving regulatory frameworks may have a slight beneficial impact on financial reporting quality, underlining the importance of robust regulatory environments. More so firm size (FSIZE) has a very weak positive correlation with FRQ (0.0033), suggesting almost no relationship between firm size and financial reporting quality. The near-zero correlation with FRQ implies that the size of the firm does not significantly influence financial reporting quality. However, larger firms perceiving audit independence less strongly indicates a potential area for policy focus to ensure consistent audit standards across firms of different sizes.

Panel Data Regression Results

Model one				Model two		
Variables	Coefficient	Z	P> z	Coefficient	t	P> t
Constants	6.7945	59.62	0.000***	6.9515	155.17	0.000***
AFS	0.0618	2.78	0.005***	0.2635	6.00	0.000***
AFE	0.0454	1.36	0.173	0.0110	1.12	0.262
RGQ				7.4475	94.01	0.000***
AFS_RGQ				0.2861	6.14	0.000***
AFE_RGQ				-0.0710	-98.60	0.000***
FSIZE	0.0299	2.73	0.006***	0.0006	0.13	0.898
Within R ²		0.3033			0.9893	
Between R ² /R ²		0.3033				
Overall R ² /Adj. R ²		0.3033			0.9886	
Wald Chi2/F-Stat		61.41	0.0000		1436.67	0.0000

Hausman	2.53	0.8651	12.51	0.4056
LM chibar2 (01)	32.91	0.0000	0.0000	1.0000
Auto correlation	0.167	0.6876	1.526	0.2318
Hettest Chi2(1)	1.83	0.1757	2.12	0.1276

Note. Stata 14 output (2024)

*** indicate 1% level of significance.

Results for model one in Table 4.5 shows the within R-squared 0.2524, this indicates that 25.24% of the variation in financial reporting quality (FRQ) within each group (insurance companies) over time is explained by the independent variables (audit quality measures and firm size). While the between R-squared: 0.5414 for model one and the R-square for model two is 0.9893, this shows that 54.14% and 98.93% of the variation in FRQ between different groups (insurance companies) is explained by the independent variables and control variable, moderating variable with its interactions in model one and two respectively.

In addition, the overall R-squared is 0.3033 for model one and Adjusted R-Squared for model two is 0.9886. the overall R-squared of 0.3033 and adjusted R-squared for model one and two respectively suggests that about 30.33% of the total variation in FRQ across all observations is explained by the independent variables in model one, while introducing the moderating variable and its interaction increased the total variation caused both independent variables, moderating variable with its interaction and control variable to 98.86%. The Wald chi-square statistic is 61.41 for model and F-statistics is 1436.67 for model tow, both with a p-value of 0.0000. This indicates that the overall models are statistically significant at the 1% significance level, meaning that the independent variables, moderating variable with its interaction and control variable collectively have a significant effect on financial reporting quality and also regulatory quality significantly moderated the effect of audit quality on financial reporting quality of listed insurance companies in Nigeria.

The study documented that audit firm size positively and significantly affect financial reporting quality. The coefficient for audit firm size (AFS) is 0.0618 with a p-value of 0.005. This indicates a positive and statistically significant effect, meaning that larger audit

firms are associated with higher financial reporting quality. The finding implies that 1% increase in size of audit firm increase the financial reported quality of firm audited by the audit firm by 0.0618%. It also implies that engaging larger audit firms, which typically have more resources and reputation at stake, can lead to better financial reporting. Companies and regulators might prioritize larger audit firms for their audits to ensure higher standards of reporting. The significant positive relationship between audit firm size and FRQ, suggesting that larger audit firms, with their greater resources and reputation, are better able to conduct thorough audits that enhance the quality of financial reporting.

The finding supports agency theory by showing that larger audit firms, due to their resources and experience, can better mitigate the agency problem by providing high-quality audits. The theory also posits that larger firms, due to their resources and reputational concerns, can better reduce agency problems through high-quality audits. Similarly, stakeholders' theory is supported as larger firms tend to have a broader responsibility to multiple stakeholders, which is reflected in their capacity to deliver high-quality financial reports. Similarly, as larger firms are seen as more accountable to a broader range of stakeholders, necessitating more rigorous auditing practices. The result also aligns with positive accounting theory, suggesting that firms prefer larger audit firms to enhance the credibility of their financial reports, thus maximizing the firm's value. In addition, the preference for larger audit firms aligns with institutional theory, where organizations seek legitimacy by associating with well-established institutions, like large audit firms.

The positive association between audit firm size and FRQ is consistent with prior studies such as Geoffrey (2020); Kenny and Luqman (2019); Gehya (2019); Jerri and Saidu (2018);

Umobong and Ibanichukwu (2017); Samuel et al. (2017) which often highlight the superior quality control processes and reputation concerns of larger firms. On the other hand, the finding is not consistent with the finding of Godwin et al. (2018); Kaklar et al. (2012) who studies revealed that audit firm reduces financial reporting quality.

Also revealed the coefficient for audit fee (AFE) at 0.0455 with a p-value of 0.173. This suggest that audit fee has positive but insignificant effect on financial reporting quality. This positive and statistically insignificant effect suggests that higher audit fees are associated with improved financial reporting quality. This implies that increase of audit fee by 1% would increase financial reporting quality by 0.455% however, such increase is insignificant. The implication of the finding in practice is that higher audit fees likely reflect the allocation of more resources and better expertise to the audit process, leading to better quality financial reporting. Companies should not shy away from paying higher fees if it means securing a more thorough audit. Also, the positive and significant relationship between audit fees and FRQ suggests that higher audit fees, which likely reflect more extensive audit procedures and the involvement of more experienced auditors, contribute to better quality financial reporting.

Consequently, the finding aligns with agency theory, as it suggests that paying higher audit fees may reduce information asymmetry by ensuring a more rigorous audit process. Also, paying higher audit fees can be seen as an investment in reducing information asymmetry and ensuring the accuracy and reliability of financial reports. This result is also consistent with stakeholder theory, where the payment of higher audit fees is seen as an investment in safeguarding the interests of all stakeholders through higher quality audits. More so the result supports positive accounting theory, where companies might willingly incur higher audit fees to ensure high-quality reporting, which in turn could lead to better market valuation. The positive effect of audit fees supports institutional theory, as paying higher fees to reputed auditors may be seen as a way to conform to institutional norms and expectations.

This finding is consistent with finding of Shakhathreh et al. (2020); Ikpantan and Daferighe (2019); Moses et al. (2018) Salau and Ayoib (2016); research that links higher audit fees to better audit quality and financial reporting, reflecting the additional effort and resources that come with higher fees. Though, the finding is not in alignment with the finding of Yayangida, et al. (2023); Buiyan et al. (2020); Bala et al. (2018); Godwin et al. (2018); Abbaszadah (2017) who documented that audit fee does not have positive effect on financial reporting quality. This implies that audit fee does not increase financial reporting quality.

The study revealed that regulatory quality has positive and significant effect on financial reporting quality. The coefficient for regulatory quality (RGQ) is positive 7.4475, indicating that an increase in regulatory quality is associated with an increase in financial reporting quality. However, the p-value 0.000 and significant, suggesting that the effect is statistically significant. The implication is that improved regulatory quality leads to better financial reporting quality. This finding is important for policymakers as it emphasizes the role of effective regulation in ensuring high-quality financial disclosures.

The positive and significant also implies that regulatory quality in Nigeria is working toward perfection. This positive impact can be attributed series of amendment in Nigeria regulatory laws such as Companies and Allied Matter Act (2020); Financial Reporting Council of Nigeria (FRCN) code of corporate governance among other regulations in Nigeria. It also implies that increase of regulatory quality by 1% would significantly increase financial reporting quality by 7.4475%. The positive relationship supports the institutional theory, which argues that regulatory environments shape organizational practices, including financial reporting. It aligns with stakeholder theory by showing that better regulation benefits stakeholders by improving transparency and accountability.

Additionally, the results shows that regulatory quality has a positive and statistically significant coefficient (0.2861, p-value = 0.000) moderating effect on audit firm size and financial reporting quality. This suggests that the positive impact of larger audit firms on FRQ is enhanced by better regulatory quality. This

suggest that has audit firms increase in size towards becoming as Big 4s with the presence of regulatory quality in a country the tendencies of the audit firm to increase the financial reporting quality would also increase. The positive moderation by regulatory quality suggests that larger audit firms deliver higher financial reporting quality, particularly in well-regulated environments. The results indicate that Big 4 firms, under strong regulatory scrutiny, are likely to improve financial reporting quality better than smaller firms. This is due to their resources, expertise, and ability to comply with rigorous standards.

The finding suggests that firms may prefer to engage larger audit firms, especially in highly regulated environments, to ensure that their financial reports meet the highest standards of quality. This finding suggests that regulators should ensure that policies do not unduly favour large firms over smaller firms. It is crucial that even smaller audit firms are encouraged and supported to meet regulatory standards and deliver quality audits. Regulators may consider introducing more robust oversight mechanisms for smaller firms to ensure they can also meet the demands of strong regulatory environments and deliver high-quality financial reporting.

This finding highlights the importance of a strong regulatory framework in maximizing the benefits of large audit firms and also given the small firms the opportunity to expand in size and experience, which often have more resources and expertise. This would increase financial reporting quality of their clients. This finding supports agency theory and institutional theory, indicating that larger firms under strong regulation can better address information asymmetry and enhance FRQ. The finding supports the institutional theory that organizations (in this case, Big 4 audit firms) benefit from formal structures like strong regulatory frameworks. This allows them to provide superior services, enhancing financial reporting quality. Consequently, the finding in model one documented a similar result, however, in the model two this result was improved from positive coefficient of 0.0618 to 0.2861. This indicates that the inclusion and considering regulatory framework in carry out audit practice can enhance audit services and offered the auditor guide on what is needed of them. This also implies that regulatory quality

strengthens the effect of audit firm size on financial reporting quality.

Table 4.5 also shows that the moderating interaction between audit fees and regulatory quality has a positive coefficient (-1.0710) but statistically significant (p -value = 0.000). This indicates that higher audit fees, when moderated by regulatory quality do not enhance financial reporting quality. Comparing the results with model one it indicates that regulatory quality weakens the effect of audit fee on financial reporting quality from positive but insignificant coefficient of 0.0454 to negative coefficient but significant of -1.0710. This implies that regulatory quality presence ensures that audit firm charge fee within a specified guideline in order to avoid charging client below service render in order to sabotage the service of other audit firm and as well to ensure that audit firms do not client exorbitantly and not provide quality service. The implication is that higher fees may indicate more thorough audits, the regulatory environment does not strengthen this relationship.

The finding that regulatory quality negatively moderates the relationship between audit fee and financial reporting quality suggests that, in the context of listed insurance companies in Nigeria, stronger regulations might not be effectively enhancing financial reporting quality when combined with higher audit fees. This could imply that regulatory bodies may be imposing stringent rules without ensuring that these regulations are adaptable to the specific context or aligned with the firms' actual needs.

It also implies that audit firms would ensure that their audit fees reflect the value they provide and not just the regulatory demands. Companies could be cautious about assuming that higher audit fees automatically result in higher financial reporting quality, especially in an environment where regulatory quality might constrain the benefits of higher audit fees. The results suggest that insurance companies need to go beyond mere regulatory compliance and audit fees to improve financial reporting quality. They should work to integrate more effective internal governance practices alongside external audits.

CONCLUSION AND RECOMMENDATION

Based on the analyses conducted, the following conclusions can be drawn from the study's findings: Larger audit firms positively and significantly influence financial reporting quality, this highlights the importance of audit firm resources and expertise in ensuring high-quality financial reports. The amount of audit fees does not have a significant impact on financial reporting quality though the impact is positive, suggesting that higher fees do not necessarily lead to better audit outcomes. Regulatory quality positively and significantly impacts financial reporting quality. This underscores the importance of a strong regulatory framework in ensuring high standards of financial disclosures.

The interaction between audit fees and regulatory quality did not positively improve FRQ, reinforcing the notion that audit fees alone are not a strong determinant of audit quality. Audit tenure does not significantly affect financial reporting quality, and regulatory quality does not enhance this relationship. This suggests that long audit tenures may not inherently improve reporting quality, and regulatory frameworks do not significantly influence this outcome.

- i. Companies should prioritize engaging small audit firms in order to encourage their growth, though larger should be engaged as well particularly those with international affiliations, to benefit from their extensive resources and expertise. Corporate governance codes should recommend or require the engagement of smaller audit firms as well larger audit firm, reputable audit firms for significant entities, especially in highly regulated industries like insurance. More so, given the positive influence of regulatory quality on the financial reporting quality of large audit firms, insurance companies should consider engaging Big 4 audit firms, particularly when regulatory oversight is strong. Regulators should also support smaller firms in meeting high-quality standards

to improve competition in the audit market.

- ii. Insurance companies should not rely solely on audit fees as a measure of audit quality but should also consider the firm's reputation, expertise, and regulatory compliance. Audit committees should establish clear criteria for auditor selection that go beyond fee considerations.
- iii. Regulators should develop guidelines that enhance auditor independence, particularly in situations where regulatory quality is strong, to maximize the benefits. This could be done through regulatory updates and periodic audits of independence practices by industry regulators.
- iv. Regulatory bodies should issue guidelines that discourage fee-based competition among audit firms, focusing instead on the quality of audit services provided. This can be enforced through revisions to the codes of ethics for professional accountants and auditors.
- v. Policymakers should consider the introduction of guidelines that encourage shorter audit tenures in industries with stringent regulations to reduce complacency. This should be implemented by industry regulators through statutory requirements or best practice advisories.

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