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Alex-Ekwueme
Federal University
Ndufu-Alike Ikwo
Ebonyi State Nigeria

EFFECT OF FIRM CHARACTERISTICS ON FINANCIAL REPORTING QUALITY OF LISTED PETROLEUM FIRMS IN NIGERIA

UYAGU DAVID BENJAMIN
benmekus91@gmail.com
+2348035171591
Department of Accounting
Nigerian Defence Academy Kaduna, Nigeria

LUKA MAILAFIA
lumailafia@gmail.com
+2348065635743
Department of Accounting
Ahmadu Bello University, Zaria, Nigeria

ABSTRACT

An investigation of the effect of firm characteristics on financial reporting quality of listed firms has been a long standing issue and previous findings remain controversial because of the mixed results that were found. Consequently, this study assessed the effect of firm characteristics on financial reporting quality of listed petroleum firms in Nigeria. The study had a population of ten (10) listed petroleum firms and a sample size of seven (8) firms was arrived at based on a criterion that only the listed petroleum firms with data over the period of the study are considered. Secondary method of data collection was used in gathering data from the sampled firms and it was analysed using Ordinary Least Square regression technique. The findings revealed that firm age and auditor type had positive and significant effect on financial reporting quality of listed petroleum firms in Nigeria while return on assets had a negative and significant effect on financial reporting quality of listed petroleum firms in Nigeria. The study recommended inter alia that regulatory authorities such as the Financial Reporting Council of Nigeria (FRCN) should ensure that profit making firms are well examined to ensure that high quality financial reports of listed petroleum firms in Nigeria are produced to provide useful financial information to its numerous users.

Key Words: Firm characteristics, financial reporting quality, stakeholder theory

INTRODUCTION

The quality of financial report is very crucial to every management since the only means by which outside shareholders and investors keep themselves informed about the performance of the firm is through the disclosure of these reports (Olumide, Tanko & Nyor 2016). In the present economic situation, the need for financial reporting quality becomes more sensitive as rising market economies and mono economies like Nigeria face uncertainties as they battle the challenges of unparalleled fall in oil prices. Reported accounting information is said to be relevant to the degree of its capability of influencing a decision makers by helping them to make predictions about the outcomes of present event or to confirm or correct prior expectations (Bushman, Chen, Engel and Smith, 2004) as cited in Shehu (2013).

Furthermore, Olumide *et al.* (2016), noted that the suspension of the CEO, Chairman and two other directors of Stambic IBTC Bank by the Financial Reporting Council of Nigeria (FRCN) for filling a misleading financial statement for 2013 and 2014 financial years respectively, underscores the relevance of financial reporting quality in Nigeria. However, it is not always true that management normally presents the true picture of the financial

position of the enterprise (Kabir, 2014). Users of financial statements are therefore left with doubts as to whether the annual reports and accounts are totally free of bias even if the reports and accounts are totally free of errors (Olumide *et al*, 2016). As a result of regulatory inconsistency and the choices available to managers in accounting policies when preparing financial statements, misleading financial statements may be prepared and released to the public. This may eventually mislead the public in taking certain decisions with respect to the information made available by the management which is mostly aimed at communicating self-serving information (Shehu, 2013). Therefore, for accounting information to be relied upon by the public and to be regarded as a quality type; it must be neutral, timely, relevant, accurate, transparent, comparable, predictive, understandable, verifiable and unambiguous in its entirety (Kabir, 2014).

Despite the clear benefits of financial reporting, there are several reasons that have been advanced for the preparation of misleading financial statements which may range from the demand for higher returns by shareholders on their investments, the quest to maintain a giant corporate status in the eye of the business community or sporadic changes in competition, and the need to satisfy the greed of company's insiders (Shehu, 2013). The consistent failure by Nigerian Corporate Governance culture to be pro-active, active, responsible and accountable to the stakeholders can be attributed to the poor services nature of the regulatory agencies that has left the issue of earnings management under the disguise of business ethics (Kabir, 2014).

Firm characteristics are said to have significant role in explaining firm level earnings quality because they are variables that affect the firm's decision both internally and externally (Shehu, 2013). The incentive variable which may affect financial reporting qualityranges from firm size, leverage, profitability, Liquidity, firm growth, firm age among others. Financial reporting quality is a channel that maintains investors' confidence in the capital market, therefore reliability, transparency, clarity and language presentation are the watch words for financial reporting quality.

Hence, financial reporting quality provides financial information about the reporting entity that will be useful to existing and potential investors, lenders and other creditors in making decision about providing resources to the entity (FASB, 2010). These users of financial information may make decisions about buying or selling both equity and debt instruments, they want to know how much interest or dividend to expect, they also want to know when to expect the payment of these interest and dividends. Other users that may also find good financial reporting useful are regulators, customers, government agencies and the general public as well as existing and potential investors, lenders and other creditors (FASB, 2010). The quality of financial reports will therefore be determined by its fitness for purpose which is referred to as usefulness in decision making by the framework. The financial information that will be useful for decision making must be relevant and should faithfully represent what it sets out to represent.

Statement of the Problem

In view of the influence firm characteristics may have in restraining financial information preparers (managers) from manoeuvring the accounting figures which will eventually enhance the quality of reported accounting earnings, there have been inconclusive findings and divergent views in extant literatures as to whether firm characteristics have any effect on financial reporting quality. Currently, there is dearth of studies in this area in

Nigeria, which warrants the deployment of data from the listed petroleum firms domain.

The study carried out by (Dabor & Ibadin, 2013) is one of the few. However, the study considered only the corporate governance attributes of the banks leaving out the structural attributes and besides, the study covered only 5 years period of 2006 to 2010. Furthermore, in Nigeria, Shehu (2013) investigated the effect of firm characteristics on listed manufacturing firms over the period 2007-2011 with a sample of 32 firms. Also, Shehu & Ahmad (2013) examined firm characteristics and financial reporting quality of listed manufacturing firms using 24 firms as sample size. None of these studies was specifically based on the listed petroleum sector in Nigeria, particularly as this sector is the mainstay of the Nigerian economy, which also presents a gap to be filled by this study.

This study sets out to examine the effect of firm characteristics on financial reporting quality of listed petroleum firms in Nigerian. Specifically, it seeks to determine the influence of firm size, leverage, firm age, return on assets, and auditor type on the financial reporting quality of listed petroleum firms in Nigeria.

In view of the above objectives, the following hypotheses have been formulated in null form:

i. Firm size has no significant effect on financial reporting quality of listed petroleum firms in Nigeria;
ii. Leverage has no significant effect on financial reporting quality of listed petroleum firms in Nigeria;
iii. Firm age has no significant effect on financial reporting quality of listed petroleum firms in Nigeria;
iv. Return on assets has no significant effect on financial reporting quality of listed petroleum firms in Nigeria; and
v. Auditor type has no significant effect on financial reporting quality of listed petroleum firms in Nigeria.

This study focuses on establishing the effect of firm characteristics on financial reporting quality of Nigerian listed petroleum firms. The listed oil and gas firms are Ten (10) in number out of which a sample of Eight (8) were used for the study. The study will make use of selected financial statements of these listed firms for a period of ten (10) financial years (2007 to 2016). The rationale behind the choice of companies, sample size and time frame is premised on the accessibility of comprehensive financial statements.

LITERATURE REVIEW

Firm characteristics can be best described as certain underlying characteristics that best represent all businesses of firms in the marketplace (Shehu & Ahmad, 2013). Companies may be strong in some of these characteristics and weak in others. Companies that identify and keep track of key characteristics know where they stand. They can then use their stronger characteristics to their advantage in building sales and profits and reporting accounting information to stakeholders (Shehu & Ahmad, 2013).

The value of financial accounting is generally determined by its quality (Pounder, 2013). The central concept of financial accounting quality is that some accounting information is better and more reliable than other accounting information in relation to its characteristic of communicating what it purports to communicate. That is why, accounting quality is of great interest to several types of users involved in the financial reporting chain. Biddle, Hilary and Verdi (2009) defines financial accounting quality as the precision with which financial reports convey information about the firm's operations, in particular its cash flows, in order to inform the equity investors. Tang, Chen

and Zhijun (2008) define financial reporting quality as the extent to which the financial statements provide true and fair information about the underlying performance and financial position.

The following empirical reviews were conducted and focussed on effects of firm size, leverage firm age and return on assets on financial reporting quality of listed manufacturing firms in Nigeria. The reviews were made by stating the problem, the methodology adopted in the studies and their findings and conclusions that were drawn.

Ahmed (2012) conducted a study on disclosure of financial reporting by focusing on Firm Structure as a Determinant of Bangladesh quoted manufacturing firms. The study used Firm size (measured by logarithm of total asset), leverage (measured as the ratio of total non-current liabilities to owners' equity and long term liabilities) and share dispersion (logarithms of number of shareholders) as independent variable. Whereas financial reporting quality is measured by modified EBO. The data is extracted from 12 sample firms representing the all quoted manufacturing companies in Bangladesh as the population of the study. Multiple regressions are used as a tool of analysis for the study. The result reveals a positive strong relationship between firm structure and financial reporting quality of quoted manufacturing firms in Bangladesh. And also the study found significant positive relationship between quality of financial reporting and firm size and significant relationship between share dispersion and quality of transparency in the annual reports.

Firm size will also affect earnings management (Becker, DeFoond, Jiambalvo, & Subramanyam, 1998). Besides, Shehu and Ahmad (2013) posit that large firms have very strong reasons to manipulate their earnings in order to keep consistent earnings growth trend and meet and beat earnings expectations. Although, Missonier-Piera (2004) and Thoopsamut and Jaikengkit (2009) contrary to Shehu and Ahmad's (2013) findings posit that company size is not significantly related to financial reporting quality, and since their work was not conducted in an emerging economy, it therefore could be that the reason for this divergent result is the level of development of the economies in which the studies were conducted. If firm size is likely to affect the corporate governance characteristics as posited by Becker, DeFoond, Jiambalvo, & Subramanyam, in 1998, it is likely it will also affect the level of financial reporting quality.

According to Defond et al (2004), Firm size has been found to exhibit negative association with earnings quality since larger firms choose their accounting methods in response to their managerial decision needs. The study of Naseret *et al,* (2002), Glaum and Street, (2003), Akhtaruddin (2005) as cited in Shehu (2012) also had a negative relationship between size and Financial Reporting Quality. Hashem et al (2012) found positive and significant relationship between size and earnings management which implies that the reported earnings quality is low. In the same vein, Adelopo, (2010) also found a significant positive relationship between voluntary disclosure and firm size. On the other hand Nelson and George, (2013) found no significant relationship between firm size and earnings management and thus the quality of the reported earnings is not at question. McNally et al (1982) examined the quality of financial reports with corporate characteristics and found Firm size has a mixed result as regards its relationship with earnings quality. It is clear from these reviewed literatures that the effect of firm size on financial reporting quality has not been defined and this study intends to fill up this gap

Also, Leverage has been seen as one of the most vital Firm attributes to have influence on the earnings quality of firms, the research conducted by Shehu, (2009) shows that leverage is positively related to financial reporting quality. Similar to the finding is the study conducted by Yang and Krishnan, (2005) as cited in Shehu, (2012). On the other hand, the study conducted by Hashem et 'al (2012) found positive and significant relationship between debt ratio and earnings management which implies that the reported earnings quality is low.

Hassan and Bello, (2013) have studied the effect of firm characteristics on financial reporting quality of listed manufacturing firms in Nigeria. This study investigated firms' characteristics from perspective of structure (using firm size and leverage as proxies), monitoring (using board composition and institutional shareholding as proxies) and performance elements (using profitability, liquidity and growth as proxies). The quality of financial reporting was measured using modified model of Dechew and Dechev (2002) of listed manufacturing firms in Nigeria. The study adopted correlational research design with pooled balanced panel data of 24 firms served as sample of the study using multiple regression as a tool of analysis. The result reveals that larger and more leveraged firms in Nigerian manufacturing sector are less likely to manage earnings and increase in sales as well as institutional investors serve as a monitoring tool of preventing managers from opportunistic behaviour in managing earnings. In addition, profitability and independent directors are positively associated with earnings quality while liquidity is inversely related with quality of financial reporting. It can be said that, firm characteristics of listed manufacturing firms in Nigeria have impacted significantly on their financial reporting quality.

In the same vein, Nelson and George, (2013) found a significant positive relationship between leverage and earnings management. There result is said to have been consistent with signaling theory, because highly leveraged companies would engage in earnings management in a bid to have reports that will enable them attract more capital at reasonable rate, thus the quality of the report is trampled and compromised upon.

Similarly, KuIsmail and Chandler (2005) found that leverage is significantly and positively associated with the extent of disclosure of interim reporting standards. Ahmed & Nicolls (1994), Hossain, Tan and Adams (1994), Jaggi and Low (2000) also found that leverage is positively associated with the level of disclosure. However, Tan and Tower (1997) found that leverage was not significantly influenced by the compliance with interim reporting standards.

Based on the literatures reviewed, it can be inferred that the effect of leverage on financial reporting quality is yet to be resolved because of the mixed findings.

Similarly, the age of the firm is a major determinant of the strength of a firm's internal control, while a strong internal control is associated with financial reporting quality (Huang, Rose-Green, & Lee, 2012). It is believed that the internal control system of a firm becomes better structured as years pass by and a well-structured internal control should naturally guaranty the integrity of the financial report (Huang, Rose-Green, & Lee, 2012). Moreover, with the passage of time, firms are more likely to improve their governance and are more likely to be exposed to political risk. This is because government may not pay attention to new firms while firms that have been around for some time are always on the radar of government agencies. These factors are likely to affect their reporting

practices (Chalaki, Didar, & Riahnezhad, 2012).
Chalaki, Didar, and Riahnezhad (2012) investigated the effect of corporate governance attributes on financial reporting quality in 136 firms listed on Tehran Stock Exchange (TSE) during the period of 2003 to 2011 using a descriptive-correlation design, the study used McNichols (2002) for financial reporting quality measurement while considering institutional ownership, ownership concentration, board independence and board size as corporate governance attributes and audit size, firm size and firm age as controll variables, the result of the study showed that there is no significant relationship between firm age and financial reporting quality. Huang, Rose-Green and Lee (2012) also documented an insignificant relationship between firm age and financial reporting quality using the year of incorporation of such firms to measure the firm age. This study intends to confirm these previous findings using data from listed petroleum firms in Nigeria.

Furthermore, a firms' profitability has also been argued to have an influence on the quality of financial reporting. Alsaeed (2006) argued that a profitable firm may feel proud of its achievements and therefore would wish to disclose more information to the public in order to promote positive impressions of its performance. However, even though a study by Haniffa and Cooke (2002) did find a significant positive relationship between return on equity (ROE) with voluntary disclosure, a study by Alsaeed (2006) on the other hand, had found insignificant relationships. Besides that, the level of profit has also been argued to have an influence on the manipulation of accounting accruals because managers may manage earnings to increase their bonus rewards (Yang and Krishnan, 2005). However, Yang and Krishnan (2005) and Rahman and Ali (2006) did not find any significant relationships between the level of net income and discretionary accruals. This inconsistency and insignificance in the results is probably due to the use of current profitability, instead of changes in profits. Therefore, studies by Klein (2002b) and Davidson, Stewart and Kent (2005) have argued that the changes in profit influence the manipulation of accounting accruals. Both studies have found support for this argument. Their studies indicate a significant positive relationship between changes in net income and accruals in financial accounts.Several studies suggest that small profits are not evidence of earnings management. Dechow, Richardson, and Tuna (2003), in a large-sample study, find no relation between realizations of small profits and increases in discretionary accruals. Beaver, McNichols, and Nelson (2007) suggest that asymmetric taxes, rather than opportunistic choices, can explain the link. Durtschi and Easton (2005) suggest that the link is due to statistical and sample bias issues.

Mensah and Deajeon (2013) studied the quality of financial reports before and after adopting IFRSs in Ghana, and also the influence of firm-specific characteristics. The firm specific variables used in the study are firm size, profitability, debt equity ratio, liquidity and audit firm size on the quality of financial information disclosed by firms listed on the Ghana Stock Exchange. The research was conducted through detailed analysis of the pre-official adoption period, (2006) and post adoption period, (2008) financial statements of the listed firms. This study used regression analysis which forms the main data analysis. The results of the quality of financial information for the two years indicate that the quality of financial reports has improved significantly after adopting IFRSs. The study thus confirms that the implementation of IFRSs generally reinforce accounting disclosure

quality. It also indicates listed firms' overwhelming compliance with the IASB's IFRS Framework. The results of the multiple regression analysis show that company size, represented by net assets and Auditor type were found to be associated at a statistically significant level with the quality of financial information disclosed. With the improvement in the quality of the financial reports after adopting IFRS users are assured of useful information for financial decision-making. From the forgoing firm characteristics such as firm size, leverage, firm age and return on assets are found to be significantly associated with voluntary disclosure thus these variables will be tested to determine the intended segment disclosure in the Nigerian petroleum firms.

In addition, Jensen and Meckling (1976); Watts and Zimmerman (1986) considered that auditors play a major role in limiting opportunistic behaviours (taking selfish advantage of circumstances with little regard of the principals) by agents, thereby reducing the agency costs borne by principals. Watts el al (1986) argued that clients can be influenced to the smaller accounting firms which are more concerned about the demand of their customers. But for large auditing firms, it is not likely for them to rely on only one or two customers. In that case, they usually ask their customers to disclose more information including environmental reports on their annual reports. Previous research suggests that auditing firms that belong to the Big 4 are more sophisticated or have better audit quality than non-Big auditing firms (Qiu, 2004), Gupta & Nayar, 2007;). Higher quality auditor such as the big ones may help clients prepare more sophisticated annual reports with advanced financial and non-financial information, including environmental disclosures (Choi 1998). In India, Josh, Suwaidan and Kumar (2011) examined the determinants of corporate disclosure in the corporate websites of listed manufacturing firms. The study was based on a sample of 45 listed manufacturing firms using firm size, industry type, profitability, leverage, audit firm type and firm age as the independent variables. Multiple regression analysis showed that there was no significant statistical difference between firm size, leverage, profit and audit firm type and the level of corporate disclosure in corporate website of the listed firms.

From the foregoing literature, the study is of the opinion that higher quality auditor such as the big international auditing firms may help clients prepare more sophisticated annual reports with advanced financial and non-financial information, including environmental disclosures than small or local auditing firms. This is because the international auditing firms based on their exposures have more experience, more skilled manpower and objectivity in term of encouraging managers to disclose more environmental information.

Theoretically, a number of different theories have been used to explain financial reporting quality in organizations. Clarke (2004) defines stakeholder theory in organisations as multilateral agreements between the enterprise and its multiple stakeholders. The relationship between the company and its internal stakeholders (such as employees, managers, owners) is framed by formal and informal rules developed through the history of the relationship. While management may receive finance from shareholders, they depend upon employees to accomplish the productive purpose of the company (Freeman, Wicks & Parmar 2004). External stakeholders (customers, suppliers, and the community) are equally important, and also constrained by formal and informal rules that business must respect".

Stakeholder theory is an extension of the agency view, which expects board of directors to look after the interests of shareholders (Freeman, Wicks & Parmar 2004).

However, this narrow focus on shareholders has been expanded to take into account the interests of many different stakeholder groups, including interest groups related to social, environmental and ethical considerations (Freeman, 1984; Donalds& Preston, 1995). Sundaram & Inkpen (2004) argue that shareholder value amplification matters because it is the only objective that leads to decisions that enhance outcomes for all stakeholders. They argue that identifying a large number of stakeholders and their core values is an unrealistic duty for managers. Proponents of the stakeholder viewpoint also argue that shareholder value maximisation will lead to expropriation of value from non-shareholders to shareholders. In order to satisfy the various stakeholders, information should be available to them as at when required.

From the foregoing theoretical review, it is believed that stakeholders theory practically explains the need for financial reporting quality especially in the case of listed firms where the basic tenet of a good financial reporting quality is to protect the interests of stakeholders and stockholders (shareholders) who are also the principals of the management (agents). Consequently, this study adopted stakeholders' theory for explaining the effect of firm characteristics on financial reporting quality of listed petroleum firms in Nigeria.

METHODOLOGY

This is a longitudinal panel data study and the population is all the ten (10) listed petroleum firms operating and trading on the floor of Nigerian Stock Exchange (NSE) as at 31st December 2016 from which a sample of eight (8) firms are drawn based on a criterion where all the petroleum firms that met it had a chance of being selected. The criterion is that the listed petroleum firm must have full data over the period of the study (2007-2016). This study shall utilize secondary method of data collection to be extracted from the financial statements and corporate websites of the sampled listed petroleum firms covering the period of ten years (2007-2016) under consideration.

For the purpose of finding the effect of firm size, leverage, return on assets and firm age as independent variables on financial reporting quality as the dependent variable a multiple regression analysis is adopted. The functional relationship is given as follows.

Frq=f (fsz, lev, age, roa)……......……..……..(1)

Since it is believed there are other variables that can also influence financial reporting quality of firms, auditor type was introduced as control variables of the study.

Hence Frq=f(fsz, lev, age, roa, adt)…………......(2)

With the aid of the second equation the study arrives at a model which is presented as follows:

$Frqi_t = a + \beta 1fszi_t + \beta 2levi_t + \beta 3agei_t + \beta 4roai_t + \beta 5adti_t + ei_t$,...(3)

Where,

Frq=Financial reporting quality is measured by adopting modified Dechow and Dichev's (2002) model of ($\Delta WCit = \beta 0 + \beta 1CFOit - 1 + \beta 2\ CFOit + \beta 3CFOit + 1 + \beta 4\Delta REVit + \beta 5PPEit + \varepsilon$);FSZ=Firm size is measured by Log of Total Assets of the firm at the end of each year as measured by Yang and Krishnan (2009); Ahmed (2012); Lev=Leverage is measured by the ratio of total debts to total equity of the firm at the end of each year as measured by Shehu (2009);ROA=Return on assets is measured by ratio of profit after tax divided by total assets of the firm for each year as measured by Mensah and

Deajeon (2013); Age=Firm Age is measured as the number of years after the firm was first listed on the Nigerian Stock Exchange as used by Omar (2014) and Adt=Auditor type is measured by assigning 1 to a firm that engages an international auditing firm while 0 is assigned if the listed firm engages a local auditing firm as measured by Qiu (2004), a is the intercept, β_{1-4} is the coefficient of the independent variables and β_5 is the coefficient of control variables, e = error term, i = firm and t = year

The following diagnostic tests are conducted to enrich the analysis of data

i. Data normality test using Shapiro wilks W test for normal data
ii. Multicolinearity test, Variance Inflation Factor (VIF) and Tolerance values are conducted to ensure that some or all of the explanatory variables in a multiple regression analysis are not highly inter-correlated to cause multicolinearity problems in the data
iii. Heteroscedasticity test is conducted to check whether the variability of error terms is constant or not.
iv. Hausman specification test is conducted to enable the study choose between fixed and random effects

When the probability (p) value is greater than 5% level of significance for a null hypothesis it should fail to be rejected and where otherwise, to be rejected.

Results and Discussion

Table 4.1 shows the summary descriptive statistics of the dependent and independent variables in terms of the mean, standard deviation, minimum and maximum values. Frq had a mean of 10.80 with a standard deviation of 1.57, a minimum of 6.67 and a maximum of 13.81 suggesting that there is wide dispersion in financial reporting quality of listed petroleum firms in Nigeria because some of the firms have higher financial reporting quality than others. The values show that the highest earnings manipulation (lowest financial reporting quality) was 13.8 while the lowest earnings management (highest financial reporting quality) was 6.67 over the period of the study.

Table 1 Descriptive statistics of variables

Variables	Obs	Mean	Std Deviation	Minimum	Maximum
Frq	80	10.80	1.57	6.67	13.81
Fsz	80	7.79	0.38	6.89	8.73
Lev	80	1.07	1.02	0.01	6.49
Age	80	28.25	8.64	9	43
Roa	80	0.08	0.08	-0.07	0.69
Adt	80	0.95	0.22	0	1

Source: STATA (14) Output 2018

Firm size (Fsz) had a mean of 7.79 with a standard deviation of 0.38, a minimum and maximum values of 6.89 and 8.73 respectively. This also suggests a wide dispersion in firm sizes of listed petroleum firms in Nigeria because some of the firms have small assets sizes compared to others. Also, Leverage (Lev) had a mean and standard deviation values of 1.07 and 1.02 respectively, implying that there is no wide dispersion in leverage of listed petroleum firms in Nigeria. This equally implies that the rate of borrowing funds by listed petroleum firms in Nigeria is similar. Firm age (Age) had a mean value of 28.25 and a standard deviation of 8.64 showing that there is a wide dispersion between firm ages of petroleum firms in Nigeria. This may be due to the fact that some of the petroleum firms are much older than others that are younger.

Similarly, Return on assets (Roa) had a mean value of 0.080 and standard deviation of 0.08 which was a proof that there is no much dispersion in the profitability of listed petroleum firms in Nigeria

and this may be due to the fact that they are operating in same country and industry. The study can infer from this that Nigerian listed petroleum firms have a similar rate of profitability. Auditor type (Adt) had a mean value of 0.95 and standard deviation of 0.22 indicating a wide dispersion in the choice of audit types of listed petroleum firms in Nigeria because some of them use international auditing firms while others use local auditing firms. The analysis of the descriptive statistics of the study variables shows the nature and extent of dispersion of the data, which strongly suggested that the data did not follow the normal curve as indicated by the higher values of standard deviations. This was confirmed using shapiro wilk w test for normal data which was significant for all the variables at probability values of 0.000

Correlation Matrix

The correlation between the dependent and independent variables are presented in table 4.2 and it showed that there was a positive correlation between the dependent variable (Frq) and all the independent variables of the study with the exception of firm size and return on assets that had negative correlation.

Table 2 Correlation Matrix of Dependent and Independent variables

Variables	Frq	Fsz	Lev	Age	Roa	Adt
Frq	1.000					
Fsz	-0.04	1.000				
Lev	0.36	0.04	1.000			
Age	0.39	-0.11	-0.18	1000		
Roa	-0.29	-0.18	-0.14	0.03	1.000	
Adt	0.13	-0.12	0.11	-0.01	0.02	1.000

Source: STATA (14) Output 2018

This implies that as leverage, firm age and auditor type increase, the level of financial reporting quality of listed petroleum firms in Nigeria also increases. On the contrary, as the variable of firm size and return on asset reduce, the level of financial reporting quality of listed petroleum firms in Nigeria increases. Kaplain (1982) as cited in Hussain, Islam and Andrew (2006) suggested that multicolinearity may be a problem when the correlation between independent variables is 0.9 and above where as Emory (1982) considered more than 0.80 to be problematic. Therefore, it was evident from the above table that the magnitude of the correlation amongst the explanatory variables generally indicates no severe multicolinearity problems in the study because the highest correlation coefficient is 0.39 between Frq and Age. To determine the presence of collinearity problem, a Variance Inflation Factor (VIF) test was carried out and the results provided evidence of the absence of collinearity because the results of the VIF test ranged from a minimum of 1.03 to a maximum of 1.07 and a mean of 1.05. VIF of 5.00 can still be a proof of absence of collinearity (Neter, Kutner, Nachtsheim & Wasserman (1996). Also, the test of heteroscedasticity was conducted to check whether the variability of error terms is constant or not. The presence of heteroscedasticity usually signifies that the variation of the residuals or error term is not constant and this could affect inferences in respect of beta coefficient, coefficient of determination (R^2) and F-statistic of the study. The result of the test reveals that there is presence of heteroscedasticity because the probability of the chi square is statistically significant at 1% with value of 9.9 and p- value of 0.002. This further necessitated the study to run for fixed effect regression and random effect regression models. The use of regression model to estimate the coefficient of any panel data requires the determination of whether the fixed effect or the random effect model suits the data more efficiently using Hausman statistical test (Gujerati, Porter & Gunasekar 2012). The results of the Hausman specification test shows that the fixed effect is more appropriate for the study with a chisquare value of 6.17 and p value of 0.289.

The Shapiro Wilks W test for normal data was conducted and it showed that the data for the study was not normally distributed because all the variables of the study had a significant p-value of less than 1% hence the robust standard error random effect model was used in discussing the results

The regression results of Random Effects (RE) of the dependent variable Financial reporting quality (Frq) and the independent variables of firm size (Fsz), leverage (Lev), firm age (Age), return on assets (Roa) and auditor type (Adt) are presented in table 4.3

Table 4.3 Regression Results (Random Effects)

Ind. Variables	Coefficients	Robust Std Error	Z Statistics	P-Values	VIF
Fsz	0.1095	0.1144	0.96	0.338	1.06
Lev	0.1637	0.1554	1.05	0.292	1.07
Age	0.1315	0.0394	3.34	0.001	1.05
Roa	-0.9496	0.3494	-2.72	0.007	1.06
Adt	0.2433	0.1252	1.94	0.052	1.03
No of Obs	80	80	80	80	
Het Test	9.9 (0.0016)				
R-Squared (overall)	0.2236				
F-Statistic	205 (0.0000)				
Hausman	6.17 (0.2896)				

Source: STATA (14) OUTPUT 2018 based on study data appendix A

From the p-values which is statistically significant, the validity of the model under the random effect estimations is evident. The R-squared of 22.36% for the random effect shows that the changes in environmental reporting practices is substantially accounted for by the explanatory variables. This implies that the independent variables can explain 22.36% of the changes in the dependent variable. Furthermore, the random effect estimation shows, the F-statistics of 205.38 and p-value of 0.000 which confirm the fitness of the model because there was a significant linear relationship between financial reporting quality of listed petroleum firms in Nigeria and the explanatory variables (firm size, leverage, firm age return on assets and auditor type).

The null hypotheses of the study were tested and the results are shown in table 4.3.

The regression results in table 4.3 showed that firm size has a positive coefficient and p-values of 0.1095 and 0.338 respectively, indicating that board size has a positive and insignificant effect on the financial reporting quality of listed petroleum firms in Nigeria. The implication of this is that as firm size increases the financial reporting quality of listed petroleum firms in Nigeria increases but it is not significant. Thus, on the basis of this finding the study rejects the null hypothesis which stated that there is no significant effect of firm size on financial reporting quality of listed petroleum firms in Nigeria because the table shows that probability value of 0.338% is more than 0.05% level of significance (0.338% > 0.05%). This finding is in line with those of Nelson and George (2013) Shehu and Ahmad (2013) who found that there was no significant effect of firm size and financial reporting quality. This finding is inconsistent with the studies conducted by Ahmed (2012) who documented that there was a significant and positive effect of firm size on financial reporting quality.

Similarly, considering leverage in table 4.3, the random effect estimated that foreign directors has a positive and insignificant effect on the financial reporting quality of listed petroleum firms in Nigeria with coefficients and p-values of 0.1637 and 0.292 respectively. The implication of this is that as the values of leverage these petroleum firms increase, the financial reporting quality of listed petroleum firms in Nigeria is not affected. Based on this finding the study fails to rejects the null hypothesis which stated that there is no significant effect of firm characteristics of leverage on financial reporting quality of listed

petroleum firms in Nigeria because the table shows that probability value of 0.292% is more than 0.05% level of significance (0.292% > 0.05%). This finding is in tandem with those of Tan and Tower (1997) who found that there was no significant effect of leverage on financial reporting quality. However, the study contradicts those of Hashem *et. al* (2012) and Hassan and Bello (2013) who all found that there was significant and positive effect of leverage on financial reporting quality of sampled firms

Furthermore, the random effect in table 4.3 agreed that firm age has a positive and significant effect on the financial reporting quality of listed petroleum firms in Nigeria at 5% level of significance with coefficient and p-values of 0.1315 and 0.001 respectively. This implies that as firm age increases, the financial reporting quality of listed petroleum firms in Nigeria also increases. Therefore, on the basis of this finding the study rejects the null hypothesis which stated that there is no significant effect of firm age on financial reporting quality of listed petroleum firms in Nigeria because probability value of 0.001 is less than 5% level of significance (0.001<5%). This finding is inconsistent with those of Chalaki, Didar and Riahneshad (2012); Huang, Rosegreen and Lee (2012) who found that there was negative and significant effect of firm age on financial reporting quality of firms.

Considering return on assets, the random effect in table 4.3 estimates that return on assets has a negative and significant effect on the financial reporting quality of listed petroleum firms in Nigeria at 5%% level of significance with coefficient and p-values of -0.9496 and 0.007 respectively. This implies that as the profitability reduces the financial reporting quality of listed petroleum firms in Nigeria increases. On the strength of this finding the study rejects the null hypothesis which stated that there is no significant effect of return on assets on financial reporting quality of listed petroleum firms in Nigeria because the table shows that probability value of 0.007% is less than 0.5% level of significance (0.007% < 0.05%). This finding is in line with those of Haniffa and Cooke (2002) who found a significand and negative effect of return on assets on financial reporting quality. It opposes those of Yang and Krishna (2005) and Alsaeed (2006) who documented that there is a positive insignificant effect of return on assets on financial reporting quality of firms.

Similarly, considering auditor type in table 4.3, the random effect estimated that it has a positive and significant effect on the financial reporting quality of listed petroleum firms in Nigeria with coefficients and p-values of 0.2433 and 0.05 respectively. The implication of this is that as the auditor types of these petroleum firms are changed, the financial reporting quality of listed petroleum firms in Nigeria increases. Based on this finding the study rejects the null hypothesis which stated that there is no significant effect of firm auditor type on financial reporting quality of listed petroleum firms in Nigeria because the table shows that probability value of 0.05% is equal to 0.05% level of significance (0.05% = 0.05%). This finding does not in corroborate the findings of Josh, Suwaiden and Kumar (2011) who found that there was a positive and significant effect of auditor type on financial reporting quality.

CONCLUSION AND RECOMMENDATION

This study examined the effect of firm characteristics on financial reporting quality of listed petroleum firms in Nigeria over the period of ten years (2007-2016). The study covered eight listed petroleum firms out of the ten petroleum listed firms operating in Nigeria as at 31st

December 2016. The findings have a clear policy implication on financial reporting quality of listed petroleum firms in Nigeria based on the results of the descriptive statistics, correlation matrix and the random effects model of the study. The research concludes that firm size and leverage have positive and insignificant effect on the financial reporting quality of listed petroleum firms in Nigeria, while firm age and auditor type have positive and significant effect on financial reporting quality of listed petroleum firms in Nigeria.

Furthermore, the study concludes that return on assets had a negative and significant effect on financial reporting quality of listed petroleum firms. The study recommends based on the findings that the Financial Reporting Council of Nigeria (FRCN) which is responsible for monitoring the financial reporting quality of listed petroleum firms in the Nigerian should ensure that profit making firms are well examined to ensure that high quality financial reports are released to provide useful financial information to its numerous users. The study also recommends that government should provide incentives for firms, to ensure that they continue in operation because as the age of firms increases their financial reporting quality improves.

In addition, listed petroleum firms in Nigeria should be engaging the services of international auditing firms who have experienced personnel and resources to ensure that high quality financial reports are produced.

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