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**Sequence of Manuscript**

I. Title page
II. Abstract (150-250 words)
III. Keywords (3-5)
IV. Introduction
V. Literature Review
VI. Methodology
VII. Results and Discussion
VIII. Conclusion and Recommendations
IX. References (APA 7th Edition)
X. Appendices (if necessary)
XI. Author Biographies (optional)

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# Editorial Team

## TABLE OF CONTENT

# EFFECT OF FIRM SIZE ON FINANCIAL REPORTING QUALITY OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA: THE MODERATING ROLE OF AUDIT QUALITY

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## ABSTRACT

*This study examines the impact of firm size on the financial reporting quality (FRQ) of listed consumer goods companies in Nigeria, with audit quality as a moderating variable. Using a quantitative research approach and ex-post facto design, the study analyzed secondary data from reputable databases and financial reports of 17 purposively selected companies. Findings reveal a significant negative effect of firm size on FRQ, indicating that larger firms often have lower financial reporting quality. However, high audit quality significantly moderates this relationship, mitigating the negative impact of firm size on FRQ. The study concludes that while larger firm size tends to diminish FRQ, robust audit practices can counteract these adverse effects. Recommendations include enhancing audit quality to improve FRQ, leveraging profitability to bolster financial reporting practices, and adopting comprehensive internal controls and strict reporting standards to address challenges associated with larger firm sizes.*

## 1. Introduction

Modern accounting, from a global perspective, serves the crucial function of providing information that facilitates informed financial decisions and judgments within organizations (Kabwe, 2023). Financial reporting plays a key role in delivering the necessary data for making economic decisions and evaluating organizational performance (Hassan & Abubakar, 2019). This data is disseminated through financial statements such as the statement of comprehensive income, financial position, cash flows, and owner's equity. In Nigeria, listed companies are required to utilize these financial statements to communicate with stakeholders, as mandated by the Financial Reporting Council of Nigeria (FRC) (Farouk et al., 2019). Compliance with global accounting standards is essential in enhancing the credibility of these financial reports. For instance, Section 377 of the Companies and Allied Matters Act (CAMA) 2020 requires companies to prepare annual financial statements, while Section 378 mandates adherence to International Financial Reporting Standards (IFRS), as stipulated by the FRC Act 2011.

International Financial Reporting Standards (IFRS) are globally recognized accounting guidelines, adopted by 80% of jurisdictions worldwide, to improve the quality of corporate financial reporting (Hoogervorst, 2016, cited in Kabwe, 2023). Effective regulatory enforcement is key to ensuring compliance with these standards, thereby improving the quality of financial reporting (Hellman et al., 2018; Christensen et al., 2015). In Nigeria, the Financial Reporting Council is tasked with providing oversight for IFRS compliance. However, many developing countries, including Nigeria, face significant challenges in enforcing these standards due to weak regulatory mechanisms and inadequate institutional support (Kabwe et al., 2021; World Bank, 2017; Kabwe et al., 2020; Kabwe, 2023). These challenges stem from both country-specific factors, such as legal and political systems, enforcement practices, and corporate governance structures, as well as firm-specific factors, including company size, profitability, leverage, auditor type, and board composition.

This study is motivated by the persistent failures of Nigerian companies, which have been attributed to a lack of credibility in financial reporting (Shehu & Ahmad, 2013). Compared to more advanced economies, the quality of financial reporting in Nigeria remains weak, contributing to inefficiencies and slowed economic growth (Hassan & Abubakar, 2019). The Nigerian corporate landscape has faced numerous challenges related to the quality of financial reporting, resulting in significant accounting scandals and corporate failures, such as those involving Oceanic Bank, Cadbury Nigeria Plc., Intercontinental Bank, and African Petroleum. These failures can largely be attributed to inadequate disclosure practices, a lack of transparency, and manipulative accounting behaviors (Hassan & Abubakar, 2019).

This study aims to investigate the impact of firm size on the quality of financial reporting in Nigerian consumer goods companies, with audit quality serving as a moderating factor. Firm size is hypothesized to influence financial reporting quality, as larger firms typically possess more resources and sophisticated systems, which may lead to better controls and improved governance (Olowookere et al., 2021). However, the complexity of larger firms may also introduce challenges, such as the potential for errors or pressure to manipulate financial figures. High audit quality plays a critical role in mitigating these risks, ensuring the reliability and accuracy of financial reports by identifying and correcting errors or misstatements (Hassan & Abubakar, 2019). The independence and objectivity of audits are paramount for detecting and addressing irregularities in financial reporting.

Recent studies highlight several key themes and gaps in understanding the relationship between firm size and disclosure practices. Orajekwe and Ogbodo (2023) identified challenges in environmental reporting among larger Nigerian energy firms, suggesting the need to incorporate audit quality as a mitigating factor. Efut et al. (2023) observed a negative relationship between firm size and financial reporting quality in Nigerian banks, emphasizing the need for more robust sampling methods. Other studies, such as those by Okoba and Chukwu (2023) and Lodikero et al. (2023), found positive associations between firm size and social or CSR disclosures but recommended clearer definitions and broader industry coverage. In contrast, Nangih et al. (2023) reported mixed effects of firm size on financial performance indicators such as earnings per share (EPS) and return on assets (ROA), while Diriyai and Korolo (2023) and Lambe et al. (2023) found positive associations with liquidity and social sustainability reporting, but noted the need for more detailed analyses.

This study aims to fill these gaps by expanding existing methods and providing clearer recommendations. Specifically, it will focus on examining the effect of firm size on the financial reporting quality of listed consumer goods companies in Nigeria, with a particular emphasis on the moderating role of audit quality.

## 2. Literature Review

### 2.1 Conceptual Framework

Financial reporting is essential for organizations to communicate their financial status and activities to both internal and external stakeholders, beyond just presenting financial statements (Ndhlovu & Muzira, 2023). According to the International Accounting Standards Board (IASB), financial reporting quality is judged by the accuracy of its objectives and the information disclosed. Key qualitative attributes, including truthfulness, comparability, verifiability, timeliness, and clarity, are vital for ensuring high standards and usefulness of reports. Transparency is crucial, with emphasis on accuracy and predictability (Gajevszky, 2015). The Financial Accounting Standards Board (FASB) and IASB Conceptual Framework identifies relevance, truthfulness, clarity, comparability, verifiability, and timeliness as key components of high-quality reporting (Diriyai, 2023), categorized into fundamental and enhancing characteristics.

Firm size plays a significant role in accounting, management, and finance, as noted by Fodio et al. (2021). Larger firms exhibit distinct traits, such as complex structures, multiple management levels, and specialized functions (Ojobo et al., 2022; Okoba & Chukwu, 2023). Their capacity for diversification allows them to spread risks and enhance social impact through corporate responsibility (Lodikero et al., 2023). Increased public scrutiny also requires strong communication and reputation management (Nangih et al., 2023). In consumer goods companies, firm size influences operational efficiency and growth, allowing large firms to leverage economies of scale and better address stakeholder needs (Aribaba et al., 2022; Tran Quoc Thinh, 2021; Umar et al., 2022).

Audit quality ensures the accuracy and reliability of financial information, including factors like auditor independence, skepticism, and effective communication (Ishaku et al., 2021). It is measured by compliance, technical precision, and transparency (Tran Quoc Thinh, 2021; Ojobo et al., 2022). Choosing a "Big Four" audit firm (Deloitte, PwC, EY, or KPMG) is often a proxy for high audit quality due to their resources and reputation (Ishaku et al., 2021). This study measures audit quality using the ratio of auditors' remuneration to revenue, where higher remuneration suggests more thorough audits and better quality.

### 2.2 Empirical Review

Orajekwe and Ogbodo (2023) examined the relationship between firm size and environmental disclosure in energy firms listed on the Nigerian Exchange Group from 2013 to 2022. They analyzed data from nine firms in the oil, gas, utility, and natural resource sectors using Multiple Linear Regression. The study found that larger and older firms faced challenges in providing detailed environmental disclosures due to operational complexity. While valuable for the energy sector, its findings may not apply to other industries, and incorporating additional variables such as audit quality could improve the analysis. The contradictions between firm size and age compared to previous studies call for further investigation.

Efut et al. (2023) analyzed the impact of firm size on financial reporting quality in listed Universal Banks in Nigeria, before and after IFRS adoption. Using judgmental sampling, the study found a significant negative relationship between firm size and reporting quality. The reliance on secondary data and judgmental sampling may limit generalizability, and adding stakeholder interviews could improve validity. The study would benefit from robustness checks and more specific recommendations.

Okoba and Chukwu (2023) explored the impact of firm size on social sustainability disclosures in Nigerian manufacturing firms using legitimacy theory. They found a positive correlation between firm size, leverage, and sustainability disclosures. However, the study would benefit from clearer explanations of measurement techniques and actionable recommendations. Lodikero et al. (2023) studied CSR disclosures in listed industrial goods companies, finding minimal positive links between firm size, media exposure, and foreign ownership. The study's focus on one industry limits its generalizability, and a deeper discussion of prior mixed results would enhance its contribution.

Nangih et al. (2023) analyzed the effect of firm size on financial performance in Nigerian consumer goods companies, finding that firm size positively impacts EPS but negatively affects ROA. A more thorough literature review and practical recommendations would strengthen the study. Diriyai and Korolo (2023) found a positive relationship between firm size, liquidity, and financial reporting quality in industrial goods companies, but the study could benefit from a discussion of limitations and practical implications.

Lambe et al. (2023) examined firm size's impact on social sustainability reporting in Nigerian companies. The study found a significant positive effect of firm size on social disclosures, but would improve with a more detailed methodology and analysis of practical implications. Sabiya and Joel (2023) explored the relationship between firm size and financial performance in Pension Fund Administrators (PFAs), finding a positive effect of firm age on performance, though the study lacks detailed methodology and broader analysis.

Egolum and Ikebudu (2023) found no significant effect of firm size on earnings management in Nigerian conglomerates, though firm age showed significance. The study would benefit from a more detailed discussion of methodology and implications. Similarly, Orajekwe and Ogbodo (2023) found that larger energy firms in sub-Saharan Africa faced challenges in environmental reporting, with firm size negatively correlated with disclosure. Expanding geographic coverage and using comprehensive disclosure measures would improve the study's findings.

Shuaibu et al. (2023) investigated the relationship between firm size and Waste Disposal Cost Disclosure (WDCD) in Nigerian industrial goods companies, finding a negative relationship. More information on sample selection and deeper analysis of findings would enhance practical relevance. Ememobong et al. (2023) found weak effects of firm size on earnings predictability in Nigerian manufacturing companies, and the study could improve with a clearer methodology and practical recommendations.

Aribaba et al. (2022) found that firm size and ownership negatively affected financial performance in Nigerian oil and gas companies, while leverage and firm age had positive impacts. Umar et al. (2022) found no significant effect of firm size on IFRS compliance in Nigerian banks but noted profitability's negative effect. Both studies would benefit from discussions of limitations and practical implications. Ojobo et al. (2022) found a positive association between firm size, leverage, and profitability on sustainability reporting in Nigerian banks. However, the study's small sample size limits its generalizability. Expanding the sample and addressing limitations would enhance its robustness. Adekanmi (2022) also found a positive relationship between firm size and sustainability reporting in non-financial firms, but the study would improve with clearer methodology and theoretical grounding.

Tran Quoc Thinh (2021) found that firm size and audit type positively influenced voluntary disclosure in top firms in Vietnam. Expanding the sample size and discussing potential biases would strengthen the study. Ramalan et al. (2021) found that firm size had a significant positive effect on voluntary disclosure in Nigerian manufacturing firms, though further theoretical discussion and exploration of limitations would improve the study.

Obiora et al. (2021) found that larger firms in Nigeria's consumer goods sector disclosed less CSR information, and the study would benefit from deeper theoretical analysis. Antara et al. (2020) found firm size positively influenced sustainability reporting in non-financial firms in Nigeria. A more thorough analysis of moderating factors would enhance understanding of these disclosures.

Despite extensive research on firm size and financial reporting, there is a notable gap in studies focused on the financial reporting quality of consumer goods companies in Nigeria. Most research has centered on industries like banking, energy, and industrial goods, leaving the consumer goods sector underexplored. Additionally, the moderating role of audit quality in the relationship between firm size and financial reporting quality has not been thoroughly investigated. Existing findings on firm size and reporting quality are inconsistent across sectors, emphasizing the need for more targeted studies. Addressing these gaps is crucial for enhancing financial report transparency and reliability in Nigeria's consumer goods industry.

### 2.3 Theoretical Review

Stakeholder Theory was introduced by Freeman (1984). The theory posits that corporate actions and disclosure practices are shaped by the expectations of various stakeholders, including shareholders, employees, customers, and communities. In the context of Nigerian consumer goods companies, understanding these influences is crucial for improving transparency and accountability in corporate reporting. The theory is particularly relevant for analyzing how firm size affect financial reporting quality, with audit quality serving as a moderating factor.

The application of Stakeholder Theory provides insights into how stakeholder pressures impact financial reporting practices. Firm size reflects organizational characteristics that influence financial reporting through internal controls, management expertise, and governance practices. Stakeholder Theory underscores the need for companies to adapt their reporting to meet evolving stakeholder demands, while audit quality enhances the reliability of financial reports by addressing concerns related to information asymmetry and governance. Integrating Stakeholder Theory into the research offers a comprehensive framework to explore how audit quality moderates the relationship between firm size and financial reporting quality, contributing to a deeper understanding of corporate disclosure dynamics and stakeholder engagement in Nigerian consumer goods companies.

## 3. Methodology

This study employs a quantitative research approach with an ex-post facto design, utilizing secondary data sourced from reputable databases and financial reports. Situated within the positivist paradigm, the study emphasizes objective reality, rationality, and empirical evidence. The population comprises 25 listed consumer goods companies in Nigeria, with a sample of 17 companies selected based on the following criteria: (i) listed on the Nigerian Exchange for at least ten years to ensure sufficient financial data, (ii) published annual financial reports for the past eleven years, including income statements, balance sheets, and cash flow statements, and (iii) complete and accurate financial data. Purposive sampling was used to deliberately select companies meeting these criteria. Data analysis involved Descriptive statistics, Correlation analysis, and Multiple regression analysis using STATA 14.0.

The econometric model for this study examines the moderating effect of audit quality (AUQ) on the relationship between Firm Size (FSZE) and financial reporting quality (FRQ) among listed consumer goods companies in Nigeria. Profitability (PROF) and leverage (LEVG) are included as control variables. The model is represented as follows:

**Model one**

$$FRQ_{it} = \beta_{0it} + \beta_1 FSZE_{it} + \beta_2 PROF_{it} + \beta_3 LEVG_{it} + \varepsilon_{it}$$

**Model two**

$$FRQ_{it} = \beta_{0it} + \beta_1 FSZE_{it} + \beta_2 (FSZE*AUQ)_{it} + \beta_3 PROF_{it} + \beta_4 LEVG_{it} + \varepsilon_{it}$$

Where: *FRQ* represents financial reporting quality, *FSZE* denote firm size, respectively, the independent variables. *AUQ* stands for audit quality. *PROF* represents profitability and *LEVG* represents leverage. $\beta_0$ represents the intercept. $\beta_1$, $\beta_2$, $\beta_3$, and $\beta_4$, represent the coefficients associated with each independent and control variable, indicating the strength and direction of their respective relationships with financial reporting quality. $\varepsilon$ represents the error term. The Summary of Variable Measurement is giving below:

| Variables | Code | Measurement | Source |
|---|---|---|---|
| **Dependent** | | | |
| Financial Reporting Quality | FRQ | Ohlson Price model = -1.892+(0.802*BV) + (26.564*EPS) | (Alabede, 2016; Omokhudu & Ibadin, 2015; Umoren & Enang, 2015) |
| **Independent** | | | |
| Firm Size | FSIZE | Ln (total asset) | Kolawole, et al., (2021) and Efut et al., (2023) |
| **Moderation** | | | |
| Audit Quality | AUQ | (Auditors Remuneration/Revenue) *100 | Azhar et al., (2021) and Bryan et al., (2021) |
| **Control** | | | |
| Profitability | PROF | Profit After Tax/Total Asset | Kolawole, et al., (2021) |
| Leverage | LEVG | ((Total Liabilities -Current Liabilities)/Total Equity) *100 | Kolawole, et al., (2021) |

**Source**: Author's Compilation, (2024)

**4. Results And Discussion**

Table 4.1 presents the descriptive statistics for several key variables used in the analysis. Financial Reporting Quality (FRQ) has a mean of 96.72 with a standard deviation of 277.77. This high standard deviation indicates significant variability in the financial reporting quality across firms. The wide range of FRQ values, from a minimum of -151.03 to a maximum of 1669.72, suggests that while some firms report very high quality, others may have notably poor or even negative reporting outcomes, reflecting considerable differences in reporting practices or data quality.

**Table 4.1: Descriptive Analysis**

| Variable | OBS | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| **FRQ** | 185 | 96.72 | 277.77 | -151.03 | 1669.72 |
| **FSIZE** | 185 | 11.63 | 2.20 | 5.11 | 14.56 |
| **AUDQ** | 175 | 0.14 | 0.25 | 0.01 | 1.68 |
| **PROF** | 185 | 0.06 | 0.50 | -2.36 | 6.17 |
| **LEVG** | 185 | 61.11 | 165.65 | -4.81 | 2057.65 |

**Source:** STATA 14.0 Output, (2024)

Firm Size (FSIZE) shows a mean of 11.63 and a standard deviation of 2.20, demonstrating moderate variability in the sizes of firms within the sample. The range from 5.11 to 14.56 indicates that there is a substantial difference in firm size, with some firms being significantly larger or smaller than others. This variation can influence financial reporting quality, as larger firms often have more resources and potentially more complex reporting requirements.

Audit Quality (AUQ) has an average value of 0.14 and a standard deviation of 0.25, reflecting a broad spectrum of audit quality among the firms. The values range from 0.01 to 1.68, highlighting that audit quality varies widely. A low mean with high variability suggests that while some firms might receive high-quality audits, others may have less rigorous audit processes.

Profitability (PROF), with a mean of 0.06 and a standard deviation of 0.50, indicates a wide variation in firms' profitability. The profitability values range from -2.36 to 6.17, showing that firms experience both negative and positive profitability, with some firms struggling financially while others are highly profitable.

Leverage (LEVG) has a mean of 61.11 and a very high standard deviation of 165.65, indicating considerable variation in the level of debt relative to equity among firms. The range from -4.81 to 2057.65 reflects extreme differences in leverage, with some firms having negative leverage or extremely high levels of debt. This variability can significantly impact financial stability and reporting outcomes.

**Table 1.2: Correlation Analysis**

| | FRQ | FSIZE | AUDQ | PROF | LEVG |
|---|---|---|---|---|---|
| **FRQ** | 1.0000 | | | | |
| **FSIZE** | 0.2901 | 1.0000 | | | |
| **AUDQ** | -0.1936 | -0.4588 | 1.0000 | | |
| **PROF** | 0.5248 | 0.2073 | -0.4190 | 1.0000 | |
| **LEVG** | 0.1293 | 0.1106 | 0.0238 | -0.1295 | 1.0000 |

**Source:** STATA 14.0 Output, (2024)

In analyzing the correlation matrix, Financial Reporting Quality (FRQ) exhibits a notable positive correlation with Profitability (PROF), with a coefficient of (0.5248). This suggests that higher profitability is associated with better financial reporting quality, indicating that profitable companies might have more resources and incentives to maintain higher reporting standards. Additionally, FRQ shows a positive correlation with Firm Size (FSIZE) of (0.2901), which implies that larger firms tend to report higher financial reporting quality, possibly due to more established reporting practices and systems.

Conversely, FRQ has a negative correlation with Audit Quality (AUDQ) of (-0.1936), suggesting that higher audit quality may not directly enhance financial reporting quality or could indicate a more complex relationship where high audit quality is associated with lower reported financial quality. The relationship between FRQ and Leverage (LEVG) is relatively weak and positive (0.1293), implying that leverage does not have a strong impact on financial reporting quality. This analysis highlights the interplay between profitability, firm size, and audit quality in influencing financial reporting practices, emphasizing the need for further investigation into how these factors interact in the context of financial reporting.

**Model 1: Analysis and result without a Moderator**

Heteroskedasticity Test: The results of the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity indicate a chi-square statistic of (357.07) with a p-value of (0.0000). This p-value is significantly less than the conventional alpha level of 0.05, leading to the rejection of the null hypothesis (Ho) that the variance of the residuals is constant. The rejection of the null hypothesis implies that there is evidence of heteroskedasticity in the model. In practical terms, this means that the variance of the residuals varies systematically with the fitted values of Financial Reporting Quality (FRQ), suggesting that the assumption of constant variance is violated. As a result, robust standard errors to account for this heteroskedasticity and ensure reliable inference is presented below:

Table 4.3: Model 1: Robust Regression without a Moderator

| FRQ | Coef. | Robust Std. Err. | T | P>t |
|---|---|---|---|---|
| FSIZE | -9.878825 | 5.152324 | -1.92 | 0.057 |
| PROF | 33.83082 | 27.13582 | 1.25 | 0.214 |
| LEVG | 0.2337601 | 0.2385885 | 0.98 | 0.329 |
| _cons | 39.04145 | 46.32138 | 0.84 | 0.400 |
| F(5, 179) | | | | 8.46 |
| Prob > F | | | | 0.0000 |
| R-squared | | | | 0.4543 |

**Source:** STATA 14.0 Output, (2024)

**Model 1: Hypothesis Testing**

Firm Size (FSIZE): The coefficient for Firm Size (FSIZE) is (-9.8788) with a robust standard error of (5.1523). The corresponding t-value is (-1.92) and the p-value is (0.057). This p-value is slightly above the conventional significance level of (0.05), indicating that Firm Size has a marginally significant negative effect on Financial Reporting Quality (FRQ). Although this result suggests a potential relationship, it is not sufficiently strong to confidently reject the null hypothesis at the (0.05) level. This marginal significance implies that larger firms might have lower financial reporting quality, but further investigation is needed to confirm this relationship more robustly.

Profitability (PROF): The coefficient for Profitability (PROF) is (33.8308) with a robust standard error of

(27.1358). The t-value is (1.25) and the p-value is (0.214). This p-value is well above the (0.05) significance threshold, indicating that Profitability does not have a statistically significant effect on Financial Reporting Quality. Therefore, the study fails to reject the null hypothesis for Profitability. This suggests that, within this model, changes in profitability do not significantly impact the quality of financial reporting.

Leverage (LEVG): Leverage (LEVG) has a coefficient of (0.2338) with a robust standard error of (0.2386). The t-value is (0.98) and the p-value is (0.329). Given that the p-value is significantly above the (0.05) level, it indicates that Leverage does not significantly affect Financial Reporting Quality. Thus, the study fails to reject the null hypothesis for Leverage. This result suggests that variations in leverage do not have a notable impact on the quality of financial reporting in the context of this study.

**Model 2: Analysis and result with a Moderator**

Heteroskedasticity Test: The Breusch-Pagan/Cook-Weisberg test for heteroskedasticity revealed a chi-squared statistic of (217.24) with a p-value of (0.0000), indicating a significant presence of heteroskedasticity in the model, as the p-value is well below the conventional threshold of (0.05). This suggests that the residual variance is not constant across different levels of the independent variables. To address this issue and ensure reliable results, the study employs robust standard errors in the regression analysis.

Table 4.4: Vector Inflation Factor (VIF) Test

| Variable | VIF | 1/VIF |
|---|---|---|
| **FSIZE*AUQ** | 3.65 | 0.274113 |
| **FSIZE** | 1.75 | 0.572866 |
| **PROF** | 1.33 | 0.752232 |
| **LEVG** | 1.06 | 0.941224 |
| **Mean VIF** | **1.9475** | |

**Source:** STATA 14.0 Output, (2024)

The Variance Inflation Factor (VIF) analysis indicates that the study does not suffer from severe multicollinearity among the independent variables. The VIF values for the variables are as follows: Firm Size (FSIZE) and Audit Quality (FSIZE*AUQ) show VIFs of (1.75) and (3.65), respectively, suggesting moderate levels of multicollinearity. Profitability (PROF) has a VIF of (1.33), and Leverage (LEVG) has a VIF of (1.06), both indicating low levels of multicollinearity. The mean VIF is (1.9475), which is below the common threshold of (10), confirming that multicollinearity is not a significant concern in the analysis.

Table 4.5: Model 2: Robust Regression with a Moderator

| FRQ | Coef. | Robust Std. Err. | T | P>t |
|---|---|---|---|---|
| **FSIZE** | -20.97832 | 6.249726 | -3.36 | 0.001 |
| **FSIZE*AUQ** | 33.01958 | 13.16181 | 2.51 | 0.013 |
| **PROF** | 1571.706 | 253.9262 | 6.19 | 0.000 |
| **LEVG** | 0.3184156 | 0.2247257 | 1.42 | 0.158 |
| **Cons** | 69.6135 | 60.64719 | 1.15 | 0.253 |
| **F(5, 167)** | | | | 15.52 |
| **Prob > F** | | | | 0.000 |
| **R-squared** | | | | 0.6297 |

**Source:** STATA 14.0 Output, (2024)

**Model 2: Hypothesis Testing**

In evaluating the hypotheses for the second model, the following results are observed: the overall model explains 63%of the variance in Financial Reporting Quality, as indicated by the R-square value of 0.6297. The coefficient for Firm Size (FSIZE) is −20.97832 (with a robust standard error of 6.249726). The t-value is −3.36 (with a p-value of 0.001), indicating that the effect is statistically significant at the 0.05 level. This result shows that Firm Size has a significant negative impact on Financial Reporting Quality (FRQ), leading to the rejection of the null hypothesis. It suggests that larger firms tend to exhibit lower financial reporting quality.

The interaction term between Firm Size and Audit Quality (FSIZE*AUQ) has a coefficient of 33.01958 (with a robust standard error of 13.16181). The t-value is 2.51 (with a p-value of 0.013), both indicating statistical significance. This finding demonstrates that Audit Quality significantly moderates the relationship between Firm Size and FRQ, with higher audit quality lessening the negative effects of larger firm size on financial reporting quality.

For Profitability (PROF), the coefficient is 1571.706 (with a robust standard error of 253.9262). The t-value is 6.19 (with a p-value of 0.000), both showing statistical significance at the 0.05 level. This indicates that Profitability has a significant positive effect on Financial Reporting Quality, leading to the rejection of the null hypothesis.

Leverage (LEVG) has a coefficient of 0.3184156 (with a robust standard error of 0.2247257). The t-value is 1.421.421.42 (with a p-value of 0.158), suggesting that Leverage does not significantly impact Financial Reporting Quality. Hence, the null hypothesis for Leverage is not rejected.

**4.3 Discussion of Findings**

The study's findings align and contrast with various existing literature on the relationship between firm size, audit quality, and financial reporting quality (FRQ). The observed negative impact of Firm Size on FRQ in the study supports the findings of Efut et al. (2023), who reported a significant negative relationship between firm size and financial reporting quality among Nigerian banks. Their study, though limited by judgmental sampling, corroborates the notion that larger firms might struggle with maintaining high-quality financial reporting. Similarly, Orajekwe and Ogbodo (2023) noted that larger firms face difficulties with environmental disclosure due to complexity and entrenched practices, which parallels the study's findings that larger firms have lower FRQ.

Conversely, the study's results differ from those of Okoba and Chukwu (2023) and Diriyai and Korolo (2023). Okoba and Chukwu (2023) found positive correlations between firm size and social sustainability disclosures, which contrasts with the study's negative association between firm size and FRQ. Diriyai and Korolo (2023) reported a positive relationship between firm size and liquidity with financial reporting quality among industrial goods companies, suggesting that firm size might have varying effects depending on the industry and context. The study's findings are also consistent with Stakeholder Theory, which posits that stakeholder demands and expectations shape corporate practices. According to this theory, larger firms face increased scrutiny and pressure from various stakeholders, which may contribute to lower FRQ if they fail to manage these expectations effectively. The interaction term between Firm Size and Audit Quality (FSIZE*AUQ) highlights that high audit quality can moderate the negative effect of firm size on FRQ, aligning with the theory's emphasis on the role of audit quality in meeting stakeholder demands for transparency and accountability.

The study's results provide a nuanced understanding of how firm size and audit quality interact to affect FRQ, contributing to the broader literature on corporate reporting practices. Future research should consider expanding sample sizes, exploring different industries, and incorporating additional variables to enhance generalizability and provide deeper insights into the dynamics of financial reporting quality.

**5.0 Conclusion Recommendations**

**5.1 Conclusion**

In conclusion, the study highlights the significant influence of Firm Size and Audit Quality on Financial Reporting Quality (FRQ), with a specific emphasis on Audit Quality's moderating effect. This has important implications for listed consumer goods companies, as larger firms in this sector may experience a lower effect on FRQ due to their size. However, engaging in high-quality audits can mitigate this effect, underscoring the need for robust audit practices to ensure reliable financial reporting.

**Recommendations**

i. Audit Quality: To address the negative effects of large firm size on FRQ, firms should focus on improving audit quality. Investing in rigorous and high-quality audits can help ensure more accurate and reliable financial reporting.
ii. Leverage Profitability: Firms should utilize their profitability to enhance financial reporting practices. As higher profitability is linked with better FRQ, firms should implement strategies to improve profitability, thereby positively influencing their financial disclosures.
iii. Firm Size Challenges: Larger firms should adopt comprehensive internal controls and adhere to strict reporting standards to overcome the challenges associated with maintaining high FRQ.

Leverage Strategies: Although Leverage does not significantly affect FRQ, firms should periodically assess their leverage practices to ensure alignment with financial reporting standards and avoid potential indirect effects.

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