Vol. 02, No. 01, PP.19-47, DOI: 10.22067/ijaaf.v2i1.69781

IRANIAN JOURNAL OF ACCOUNTING, AUDITING & FINANCE

The Impact of Audit Firm Size on Financial Reporting Quality of Listed Insurance Companies in Nigeria

Musa Jerry * and Sani Alhaji Saidu

Accounting Department, Adamawa State University, Mubi

ABSTRACT

This study examines the impact of audit firm size on financial reporting quality of listed insurance companies in Nigeria. Data were collected from the annual reports and accounts of thirteen sampled insurance companies out of thirty-three listed insurance companies on Nigerian Stock Exchange for the period of eight years (2008 to 2015). Empirical analyses were carried out using descriptive statistics, Pearson correlation and multiple regressions (Ordinary Least Square). The study found that audit firm size has a positive and significant impact on financial reporting quality. The study recommends that non-big4 accounting firm should invest more resources in technology and staff training, especially in specialized businesses (Insurance), so as to enable them to compete with other accounting firms in auditing.

Keywords: Audit firm size, Financial reporting quality, insurance companies

Introduction

The quality of financial reporting has been an issue of interest among regulatory bodies, shareholders, researchers and the accounting profession itself (Hassan and Bello, 2013). This is due to the fact that financial reporting has always been a principal means of communicating financial information to outside users who serve as the basis for assessing the economic performance and financial health of a firm in the quest to monitor

---

* Corresponding author, Lecturer of Accounting Department, Adamawa State University, Mubi Jerrym6@gmail.com

management's actions and in making informed judgments and decisions.

As a response to the need of quality financial reporting frameworks of International Accounting Standard Board (IASB) and Financial Accounting Standard Board (FASB), IASB issued in 2008 an exposure draft entitled "An improved conceptual framework for financial reporting". According to the IASB's conceptual framework, a key prerequisite for quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information which are comprised of relevance, faithful representation, understandability, comparability, verifiability, and timeliness (IASB 2008).

Many kinds of literature focus on two principal forces that motivate auditors to deliver the quality-a litigation/insurance incentive and a reputation incentive. Under the first motive, if auditors are legally liable for audit failures to an economically significant degree, they have an incentive to deliver quality to avoid the adverse consequences of litigation. Under the second, auditors have reputational incentives to avoid audit failures because audit quality is valuable to clients and so priced in the market for the audit services. Auditors are statutorily required by law to audit the financial statements to enhance the reliability. This is necessary to minimize the conflict of interest between managers on one side, and shareholders and other stakeholders on the other side as observed by Watts and Zimmerman (1983) and Craswell and Taylor (1992).

Regulators in several important jurisdictions, including Europe and the U.S., are considering rules that limit auditors' liability because of the concerns about how the audit market would respond as the major firms went out of business after the collapse of Enron. However, the delayed disclosure of an auditor's opinion on the true and fair view of financial information prepared by the management and increased the information unevenness and uncertainty in investment decisions (Mohamad & Nassir 2010). The principal-audit relationship between shareholders and management is one of the many adduced reasons for engaging the services of external auditors.

The conflict of interest is minimized, and confidence and reliability are maximized when a company is audited by a large and reputable audit firm. Al-Shammari et.al (2007), Jensen and Meckling (1976) and Watts and Zimmerman (1983) argued that big audit firms serve as a mechanism in reducing the agency cost and exert more of a monitoring role by limiting the opportunistic behavior of managers, thus exerting more of desirable behavior. This is consistent with the argument by De Angelo (1981) who posited that in an attempt by large audit firms to avoid potential damage to their reputation, they pressurized their clients to disclose the maximum information required, thus enhancing compliance among their clients. An audit firm is large if it is among the Big4 Audit Firms consisting of Akintola Williams Deloitte & Touche, Ernst and Young, KPMG and Price Water House Coopers.

Badejo (1998) argues that the insurance industry "mitigates the impacts of risks and positively correlates to growth as entrepreneurs cover their exposures, otherwise risk-taking abilities are hampered". Insurance companies indemnify the ones who suffer a loss and stabilize the financial position of individuals and firms with the possibility of transfer of different kinds of risks to insurance companies (Richard & Victor, 2013). This means that without pooling and transferring risk which insurance companies provide, part of the economic activities would not take place and positive effects on social welfare would fail. In other words, by creating an environment of greater security, insurance fosters investment and innovation or economic growth.

Insurance companies in Nigeria have contributed to the development of economic growth through managing the risks of firms as well as the households. However, Nigerians have a negative attitude toward insurance companies, this accounted largely for the low patronage of insurance companies in Nigeria. These attitudes can prevail either because of Standard of living, religion and other demographic factors as people living below poverty line are high and per capital income is low, insurance penetration is bound to be low. Thus, the foregoing suggests that there might be disparity between the common behavioural response to insurance offerings and strategies, and what obtains in Nigerian business environment. This coupled with recapitalization in 2005/2006 which leads to the merger and acquisition of insurance companies aimed at increasing the efficiency of the sector and this affects the number of insurance companies from 104 to 29 as in 2009 and later increased to 32 in 2015.

Most of the studies on financial reporting quality have focused on corporate governance components such as board composition, CEO duality, institutional shareholding and audit committee's impact on the quality of financial report by Dabor and Adeyemi (2009), Tijjani and Dabor (2010), Hassan (2011)and Hassan and Bello(2013) other studies like Kantudu and Samaila (2015), Hassan (2013), Dabor, and Dabor (2015), and Adamu and Kantudu (2015) studied the impact of other variables on financial reporting quality other than Audit quality (audit firm size), even though audit quality enhances confidence of users on the financial statement. This study is aimed at examining the impact of audit firm size on financial reporting quality of insurance companies in Nigeria based on the qualitative characteristics of financial reporting information.

Theoretical Framework

Auditor with big scale can provide a better audit quality compared to auditor with small-scale, including giving their opinion ongoing concern. On the hand, Schauer, (2002) examined the association between auditor size and audit quality for a sample of not-for-profit entities. Their audit quality measure was based on the entity's compliance with GAAP reporting requirements. Auditors were divided into three classes: Big four, large non-Big four and small non-Big four. They found that compliance increased as one moved from the small non-Big four to large non-Big four and from the large non-Big four to Big Four. They also tested the auditor size–audit quality relationship with a more continuous measure of audit firm size: the number of professionals employed by the audit firm. This test further confirmed their findings.

DeFond *et al*. (2002) find the evidence that Big Four auditors are more often to report audit problems in a going-concern opinion rather than Non-Big Four auditors. Geiger & Rama (2006) tested the different audit quality between Big Four auditors and Non-Big Four auditors. The results show that the error rates type 1 and 2 which are made by Big Four auditor are lower than Non-Big Four auditors. Francis and Yu (2009) find that big auditors more likely give a going-concern opinion on audited reports and the clients of big 4 auditors are proved to have less aggressive profit management. However, Tasios and Bekiaris (2012) assessed the quality of financial reporting of Greek companies according to each qualitative characteristic of financial reporting information. Results indicate that auditors perceive the qualitative characteristics of financial reporting information as important quality elements of the financial reports. As far as the quality of financial reports of Greek companies is concerned auditors perceive it to be of moderate quality attributed mainly to earnings management, poor corporate governance, family ownership and deviation from accounting principles. Consequently, Skinner and Srinivasan (2012) found that "Firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid the capital market consequences of potentially unreliable financial reporting". In such sense, a firm with a good reputation is more likely motivated to maintain skilled auditors to further maintain reputation.

Hassan (2013) examined the monitoring characteristics and financial reporting quality of the Nigerian listed manufacturing firms. Financial reporting quality is represented by earnings management using the modified Dechow et al., (1996) model. The result shows a significant positive relationship between monitoring characteristics and financial reporting quality. The control variables both returns on assets and return on equity are significant. Leverage, independent directors, audit committee, institutional, block and managerial shareholdings are all significant and imply that monitoring characteristics are influencing financial reporting quality of quoted manufacturing firms in Nigeria.

Nyor (2013) assessed the quality of annual reports and accounts of Nigerian firms from the perspective of users of such accounting information. The study administered questionnaires to respondents and taking the qualities of accounting information as understandability, relevance, consistency, comparability, reliability, objectivity and completeness. Likert scale and Chi-Square was used to test the hypothesis, the study provides evidence that the quality of annual reports and accounts of Nigerian firms is only moderate. Consequently, the study recommends that Nigerian firms should strive to achieve higher financial reporting quality

Sunghwan, Pae and Kim, (2014) studied the effects of auditors' reputation and default risks on the unethical usage of expenses in Korea, between 2007 and 2011. The study found that the catering expenses do not have any statistically significant relationship with the reputation of auditors, proxied by big 4 auditing firms, which are the biggest in size and primarily associated with the global auditing and consulting firms like Ernest Young, so, they increase with bad audit opinions, implying firms try hard to improve the results of audit using catering expenses, so; the predicted default risks increase the expenditure of the expense while the defaults actually incurred decrease such spending and that the expenses increase with new auditors imply that firms cater their auditors for better audit opinions. Thus, it is recommended that firms in Korea might have used unethically expenses more when in distress.

Kantudu and Samaila (2015) study examine the impact of monitoring characteristics on financial reporting quality of the Nigerian listed oil marketing firms. Financial reporting quality is represented by the qualitative characteristics of the financial statement. The study uses data obtained from an audited annual report and accounts of the sampled oil marketing companies for twelve years covering 2000 to 2011. Multiple regression was used to analyze the data using Stata version 12.0. It is discovered that Power separation, independent directors, managerial shareholdings, and independent audit committee are all significant and imply that monitoring characteristics are influencing financial reporting quality of quoted oil marketing firms in Nigeria.

There are many theories which attempted to explain the reasons for the demand for audit services but the theory used to underpin this study is the lending credibility theory, which suggests that the primary function of audit is to add credibility to the financial statements. In this view, the auditor's service selling point to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statements users' confidence in the figures presented by the management. Furthermore, by adopting the theory it will aid the study in determining the impact of auditor's reputation on the quality of financial reporting.

Literature Review

This chapter reviews the prior literature on audit firm size and financial reporting quality which is the significant focus of this research. The following specific areas were addressed: the conceptual, empirical framework as well as relevant theories.

External auditing plays an important role in bridging the effectiveness and efficient functioning of business environment by adding credibility to financial statements Such assurance is needed for stakeholders of the company, usually including not only shareholders but other parties as well (tax authorities, banks, regulators, suppliers, customers and employees). Lee & Ali, 2008 posit that the objective and techniques of auditors have changed significantly over time and can be divided into several phases. However, Mansouri, Pirayesh & Salehi (2009) suggested that audit quality is positively related to audit independence. But he also points out if there is lack of competence, the auditors must rely on the management of the clients, and there is no way of independence in existence. Hence audit quality, auditor independence, and auditor competence are positively related. Furthermore, from the perspective of reporting direction and information risk, Chen and Zhou (2009) as cited from Becker *et al*. (1998) said that “auditing is a form of monitoring that constrains managerial reporting discretion and therefore reduces information risk.” Hence, the quality of auditing is the quality of reporting direction and information risk reduction.

The need for audit began from the monitoring role of the auditor in the relationship between agents and principals. It is defined that audit quality as ″the quality of the firm's auditor is one factor that restricts the extent to which managers can manage earnings. The role of the auditor is expected to suppress conflicting interests in moral hazard issues. When there is a conflict of interest between the principal and the agent where the agent is unable to perform as desired by the principal, then to avoid or minimize differences from the agent’s interest the principal would establish a monitoring system. One of the monitoring mechanisms is audit quality, which fosters the decrease of information asymmetry and protects the investment of the principal, especially shareholders and potential shareholders, by providing assurance under the reasoning that the financial reports presented by the management are free from material misstatement (Watts and Zimmerman, 1983).

In the not-for-profit organizations, Tate and Feng (2013) find that audit firm specialization is an essential consideration in the decision to request proposals from audit firms. Seyyed, Mahdi, and Mohsen (2013) provide a further explanation that audit quality could be a function of the auditor’s ability to detect material misstatements and report the errors. Together with other similar definitions, they all emphasize on two of the most critical aspects of audit quality, namely auditor ability or auditor effort, and auditor independence. Therefore, this stream of definitions is mainly about the auditors’ quality.

It is commonly suggested that audit quality is positively related to firm size and specialization. De Angelo (1981) once stated that “larger auditors, as captured by membership among the Big N, tend to provide higher quality audits. In later theoretical and empirical research studies, it is confirmed that firm size is closely associated with audit quality. Further, Li, Stokes, Taylor, and Wong (2009) suggest that "large and/or specialized auditors are seen as being likely to have greater insurance coverage in the event of financial statement fraud and/or other forms of proven audit failure”.

A firm brand is another key firm characteristic that improves the audit value. Audit is usually regarded as high quality when conducted by those Big 4 firms, because of a higher level of available resources and a greater degree of personnel training and expertise. According to Hennes et al. (2011 cited in Skinner & Srinivasan 2012), "firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid the capital market consequences of potentially unreliable financial reporting". In such a sense, a firm with a good reputation is more likely motivated to maintain skilled auditors to further maintain reputation. Ultimately “auditors develop a brand name reputation for providing higher quality assurance, with a resulting increase in the quality of audited financial statements"

Several researchers found that the size of the audit firm affects the audit quality. Khalil (2011) found that the clients of the big four accounting firms reported materials and systematical weaknesses significantly lower than the clients of non-big four accounting firms, especially in the years 2005 and 2006. De Angelo (1981) and Carlin, Finch & Laili (2009) argues that big accounting firms not only possess technical and processing skills, but they also have higher brand equity and tend to concentrate on their protection. A big client portfolio will enable them to withstand client pressure. The size of an accounting firm is the most important factor that affects the independence of an auditor; followed by audit tenure, competition, audit committee, the providers of the consulting services for the company management, and the size of fees.

Some factors such as professional competence, auditor’s qualification and supporting technical information undoubtedly can be found in large audit firm’s system. Such factors can be taken into consideration when assessing the influence of audit firm’s size on audit quality to facilitate the detection of the possible errors (Hussein & Hanefah, 2013). The higher degree of specialization of large audit firm’s employees, the technological knowledge of audit groups in large firms would be higher than in small auditors. In other words, continuing professional education is more considerable in large audit firms than in small ones (O’Keefe & Westort, 1992). Larger audit firms support higher quality audits (Francis, 2004).

De Angelo (1981) connects the link between auditor size and auditor’s reputation through the economic theory of quasi-rents which states that there are two conflicting forces that affect auditor’s behavior. On the one hand, client-specific quasi-rent raises auditor’s dependence on the client; on the other hand, the quasi-rent specific to the rest of the clients also discourages the auditor to misbehave (De Angelo 1981). He argues that the greater the size of an audit firm, the higher is the perceived audit quality due to a large amount of collateral (De Angelo 1981).

Audit firm size is supposed to be one of the issues that could affect auditor's reputation because it is assumed that the larger audit firms are considered to be more independent for at least two reasons as outlined. First, because of the firms' size, the audit fee generated from a particular client constitutes a smaller percentage of the audit firm's total revenue. Second, larger audit firms usually have many divisions to provide the services needed by clients, and therefore the person who audits the client would be different from the person who provided non-audit services.

On the contrary, the situation in a small audit firm differs as an auditor handles more varied duties and also the audit fee generated from a particular client constitutes a more significant percentage of audit firm total revenue. From this situation, there is a proposition that auditors from a larger audit firm would act more independently than auditors from a smaller audit firm. Some audit firms have grown into large international audit firms, frequently called the big-four audit firms. These audit firms are linked worldwide. On the other hand, local audit firms, ranging from one to several partners still exist.

In Nigeria, though corporate financial reporting is primarily guided by the provisions of accounting standards issued by the Nigerian Accounting Standards Board-NASB, now the Financial Reporting Council of Nigeria-FRCN (Dandago, 2009), pronouncements by professional accounting bodies (ICAN and ANAN) and requirements of statutes such as CAMA, SEC, CBN, BOFIA, NDIC among others are largely expected to be complied with the financial reporting (Idigbe, 2007; Asada, 2010 and Fowokan, 2011). Reporting is one way of demonstrating the accountability and transparency of a company. The annual report is the means of communication between companies and outside parties, particularly on current activities to the user of financial information in making decision. According to Barde (2009), financial reporting entails disseminating accounting information to furnish current and potential users to enable them to assess financial position and cash flow potentials of the firm. Information that is decision-useful to capital providers may also be useful to other users of financial reporting who are not capital providers, as a result, the information that is considered as high-quality can decrease the agency cost problem by means of closing the information asymmetry gap that occurs between shareholders and management (. The primary objective of financial reporting is to provide high-quality financial reporting information concerning the economic entities, primarily financial in nature, useful for economic decision-making

(IASB, 2008; & FASB, 1999). Therefore, providing high-quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decision and enhance the overall efficiency (IASB 2008, Beest, Braam and Boelens, 2009).

According to the Framework, providing decision-useful information is the primary objective of the financial reporting. Decision-useful information is defined as "information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers" (IASB, 2008). In line with the Framework and recent literature, we define financial reporting quality in terms of decision usefulness (Beuselinck & Manigart, 2007; Jonas & Blanchet, 2000). Jonas and Blanchet (2000) describe two general perspectives that are widely used in the assessment of financial reporting quality. The first perspective relies on the needs of users. Under this perspective, the quality of financial reporting is determined on the basis of the usefulness of the financial information to its users, (Baxter 2007). The second perspective of financial reporting quality is focused on the notion of shareholder/investor protection.

Cohen *et al*. (2004) explain that the notion of financial reporting quality remains a vague concept. Financial reporting is another term for financial accounting (Anthony, Hawkins and Merchant 2011). In order to achieve a high quality of financial reporting, the acceptable accounting methods, the amount and types of information to disclose, and the format in which to present it are chosen depending on which alternative provides the most useful information for decision-making purposes (decision-usefulness) (Kieso, Weygandt & Warfield (2014). Regardless of the classification, each qualitative characteristic contributes to the decision-usefulness of financial reporting information (Kieso *et al*., 2014). Characteristics that make information useful are relevance, reliability, completeness, timeliness, understandability, and verifiability (Azmi & Mulyani 2015).

Mackenzie Coetsee, Njikizama, Chamboko Colyvas and Hanekom (2012) state that qualitative characteristics consist of fundamental and enhancing characteristics, where fundamental qualities encompass relevance and faithful representation while enhancing qualities encompass comparability, verifiability, timeliness, and understandability. Beyersdoffet al., (2013) also explain that fundamental and enhancing qualities are the most valuable information for capital providers. The qualities that make accounting information useful have been designated its "qualitative characteristics". These characteristics are the attributes that make information useful to users (Gaffikin, 2008). Subramanyam and Wild (2009) call these characteristics as desirable qualities of accounting information. Information on criteria such as relevant, reliable, completeness, timelines, understandable, verifiable, and accessible is classified as high-quality information (Mulyani, 2009). The usefulness of this high-quality information depends on the user (Mulyani, 2009). To assess the quality of financial reporting, various measurement methods have been used in prior literature among which we could refer to accrual models, value relevance models, research focusing on specific elements in the annual report, and methods operationalizing the qualitative characteristics.

The qualitative characteristics methods aim at assessing the quality of different dimensions of information simultaneously to determine the decision usefulness of financial reporting information. Jonas and Blanchet (2000), Lee Strong, Kahn and Wang (2002) and McDaniel, Martin and Maines (2002) develop questions referring to the separate qualitative characteristics in order to assess information quality. Although their research indicates that qualitative characteristics can be made operational, their operations are based on the current frameworks of the FASB (1980) and the IASB (1989) rather than on the new reporting Framework (2008). Therefore, some inconsistencies compared to the framework may exist. In addition, some of these operations are not complete and focus solely on relevance and faithful representation (McDaniel *et al.*, 2002). Although understandability, comparability, and timeliness are perceived to be less important than relevance and faithful representation, for a comprehensive assessment it remains important to include them in the analysis Beest *et al* (2009**)**. In addition, the complete annual report has to be taken into account since financial reporting refers to both financial and non-financial information.

This study uses the last approach by operationalizing qualitative characteristics both fundamental and enhancing qualities in line with the principles of Beest, Braam and Boelens, 2009. The fundamental qualitative characteristics (*i.e.* relevance and faithful representation) are most important and determine the content of financial reporting information (Beest *et al.*, 2009). The enhancing qualitative characteristics (*i.e.* understandability, comparability, verifiability, and timeliness) can improve decision usefulness when the fundamental qualitative which include characteristics are established (Beest *et al*., 2009). The measurement of financial reporting quality in terms of qualitative characteristics is important because the qualitative characteristics are those attributes that make the information in the financial statements useful to users. The conceptual framework developed by the Financial Accounting Standards Boards (FASB) and in the U.S. IASB has listed several qualitative characteristics of useful financial information. These include relevance, reliability, timeliness, verifiability, faithful representation, neutrality, consistency, and comparability.

Hence, financial statement is considered as having a good quality if it fulfils the qualitative characteristics as mentioned previously. To operationalize the qualitative characteristics, the study used the IASB (2008) and IFRS (2010) frameworks which define the financial reporting quality in terms of fundamental and advance enhancing qualitative characteristics underlying decision usefulness. The fundamental qualitative characteristics which are relevance and faithful representation are most important and determine the content of financial reporting information. The enhancing qualitative characteristic of understandability, comparability, verifiability, and timeliness also improve decision usefulness when the fundamental qualitative characteristics are established. The informative content associated with an auditor's reputation resides in the content of promising outcomes that have been delivered (Stajkovic & Luthans 2001). The content desired by users of audited financial statements is that an independent, objective auditor has issued the correct opinion on the client's financial statements after conducting a high-quality audit in conformity with generally accepted auditing standards.

According to Skinner and Srinivasan (2012), "firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid the capital market consequences of potentially unreliable financial reporting". In such sense, a firm with a good reputation is more likely motivated to maintain skilled auditors to further maintain reputation. Ultimately "auditors develop a brand name reputation for providing higher quality assurance, with a resulting increase in the quality of audited financial statements" Cohen et al. (2004) highlight the relationship between corporate governance mechanisms and financial reporting quality. However, research that focuses on a specific element in the annual report has a partial focus and thus does not provide a comprehensive overview of total financial reporting quality

Sloan (2001) opines that financial report is the first source of independent information that communicates the activities of a company to stakeholders. Base on this some scholars liken financial report to a report card that is used to assess management's activities for an accounting year. However other scholars argued that it is unrealistic to assess managers' performance base on the content of financial reports because they have great input in the preparation these reports. . Titman & Trueman (1986); Schauer (2002) assumed that a highly reputational audit firm is seen as an audit that improves the reliability of financial statement information and allows investors to make a more precise estimate of the firm's value.

Audit quality is a component of the quality of accounting information disclosed and higher disclosure quality leads to a lower information asymmetry between traders Clinch et al. (2012). A high-quality audit is one performed "in accordance with generally accepted auditing standards (GAAS) to provide reasonable assurance that the audited financial statements and related disclosures are (1) presented in accordance with generally accepted accounting principles (GAAP) and (2) are not materially misstated whether due to errors or fraud." Government Accountability Office (2003)

According to Francis et al. (2011), audit quality has a positive relationship with the quality of financial reporting, which can be proxied by earnings quality. If the quality of earnings is high, the informativeness and usefulness of earnings would be correspondingly high, hence the accuracy of the information. Therefore, recent stream of literature argues that audit quality is the quality of the audited earnings (Francis et al. 2011).

The accounting profession, audits play an important role in serving the public interest by increasing the accountability of managers and reinforcing trust and confidence in financial reporting. Therefore, audit quality is to assess whether or not audits have served the public interest through increasing the accountability of managers and reinforcing trust and confidence in financial reporting.

Methodology

This study employs a non-survey design because the data required for the study was obtained from published annual reports and accounts of the sample companies with respect to audit firm size and the qualitative characteristics of financial reporting (relevance, faithful representation, understandability, comparability and timeliness). The study covers thirty two insurance companies listed on the Nigerian Stock Exchange (NSE) as of

December 31st, 2015 (see appendix 1) after applying purposive sampling technique as the company must be quoted on NSE prior to the period of this study, which resulted in the emergence of thirteen companies as the working population for the study depicted in Table 1. The data generated from the study were analysed using different statistical techniques including Pearson Correlation and Multiple Regression. The dependent variable is the qualitative characteristics of financial reporting quality proxied by relevance, faithful representation, understandability, comparability and timeliness (see appendix 2) while the independent variable is audit firm size measured by big4 (Pricewaterhousecoopers, KPMG, Akintola Williams Deloite & Touch and Ernst and Young) and the non-big 4 (SIAO & Co, BDO professionals, Doyin Owolabi et al., Beker Tilly Nig., Aboyomi Dosunmu et al., Messrs Muhktari Dangana et al., and Balagun and Badejo & Co. audit firm).

Table 1. Sample Size

S/N	*Companies*	*Type of service*	*Year listed*
1	*AIICO Insurance Plc*	*Composite*	*1990*
2	*Guinea Insurance Plc*	*General*	*2007*
3	*IG Insurance Plc*	*Composite*	*2005*
4	*LASACO Assurance Plc*	*Composite*	*1991*
5	*Law Union and Rock Insurance Plc*	*General*	*1990*
6	*Linkage Assurance Plc*	*General*	*2003*
7	*Mutual Benefit Assurance Plc*	*General*	*2002*
8	*NEM Insurance Plc*	*General*	*1990*
9	*Niger Insurance Plc*	*Composite*	*1993*
10	*Prestige Assurance Co. Plc*	*General*	*1990*
11	*Royal Exchange Assurance Plc*	*Life*	*1990*
12	*Standard Alliance Insurance Plc*	*General*	*2003*
13	*WAPIC Insurance Plc*	*General*	*2005*

Source: *Generated by the Researcher from NSE Daily Official Listing, 2016.*

Model Specification

FRQ = f (R,FR,U,C,T)……………………………………….…… (i)
FRQ = f(AFS) ……………………………………………... (ii)
FRQ = $\beta_0 + \beta_1 AFS_{it} + e_{it}$…………………………………….. (iii)
Where: FRQ = Financial reporting quality
AFS = audit firm size
R = Relevance
FR = Faithful representation
U = Understandability
C = Comparability
T = Timeliness
β_0 = Regression intercept;
β_1 = Parameters to be estimated;
e = Error term
it = company ***i*** in year **t**

Results and Discussion

The study conducted some tests in order to ascertain the validity and reliability of the results. From the study, this includes heteroskedasticity and Hausman specification. The result of the heteroskedasticity test, with respect to the study model, shows the presence of heteroskedasticity as the probability (p-value) of the chi-square is 0.0085 (see Appendix 3) which is significant. Since heteroskedasticity which is not the ideal condition was found in the model it was corrected through the Ordinary Least Square (OLS) robust test. However, considering the result of the Hausman specification test (Appendix 3) which shows the chi-square probability (p-value) of 0.0058 which is significant the study result should be interpreted based on the Fixed Effect (FE) model. From the results of the tests conducted above, it is obvious that the data are free from any regression errors capable of invalidating the underlining regression assumption of the study and the regression estimates obtained can be relied upon.

Table 2. Descriptive Statistics of the Dependent and Independent Variable

VARIABLE	***Mean***	***Standard Deviation***	***Minimum***	***Maximum***
FRQ	*2.75*	*0.40*	*1.84*	*3.67*
AFS	*3.89*	*1.25*	*2.5*	*5.00*

Source: *Generated by the Researcher from Annual Reports and Accounts of Sampled insurance companies using Stata 12.0*

The descriptive statistics of the variables in Table 2 above shows the results for the mean, standard deviation, minimum and maximum scores of the variables. The mean financial reporting quality (FRQ) score for the sampled insurance companies in Nigeria shows a mean in relation to the reporting quality of about 2.75. This shows the elements of less quality with regard to financial reporting of the company. The minimum computed value of financial reporting quality is 1.84 and the maximum is 3.67 and as shown by the standard deviation of 0.40, there is significant variation in the financial reporting quality among the sampled insurance companies during the period reviewed. On the other hand, the mean proportion of audit firm size shows that the average value of 3.89 means most of the financial statements are audited by big 4 accounting firms, the minimum value of 2.5 shows the number of companies financial statements audited by non big4 accounting firm while the maximum value of 5 shows the number of companies financial statements audited by big4 accounting firm over the period reviewed. The computed standard deviation is 1.25 which shows the presence of dispersion in the audit firm size among the sampled insurance companies.

Table 3. Correlation Matrix of the Dependent and Independent Variable

Variables	*FRQ*	*AFS*
FRQ	*1*	*1*
AFS	*0.3091**	*1.000*

Source: *Generated by the Researcher from the annual Reports and Accounts of Sampled Insurance companies*

The results of the correlation between the dependent variable (financial reporting quality) and the independent variable (audit firm size) of the study, as presented in Table 3, show that accounting firm size has a positive and significant relationship with financial reporting quality as shown by the correlation matrix result of 0.3091 which is consistent with the study of Pujilestari and Herusetya, (2013).

Table 4. Summary of Fixed Effect Result

Variables	*Coefficient*	*Std Error*	*z*	*p>/z/*
CONSTANT	*2.35904*	*0.1083*	*21.77*	*0.000*
AFS	*0.10012*	*0.0294*	*3.41*	*0.001*
R Square: Within	*0.1392*			
Between	*0.5508*			
Overall	*0.3556*			
P Value	*0.0002*			

Source: *Generated by the Researcher from the annual Reports and Accounts of Sampled Insurance companies using stata version 12.0*

The Fixed Effect (FE) regression results presented in Table 4 reveal the cumulative R^2 of 0.3556 which implies that about 35.56% of total variation in financial reporting quality of listed insurance companies in Nigeria is considered by audit firm size auditing the company's financial statements. This shows that the model is fit and the variables are properly selected, combined and used and the findings of the study can be relied upon.

The FE result presented in Table 4.3 shows that the accounting firm size (big4 and non big4) has a positive and significant impact on financial reporting quality as shown by the coefficient of 0.10012 and p-value of 0.001, which is positive and significant. This means that a 1% increase in accounting firm size other variables held constants will lead to a 10% increase in the quality of financial reporting of the sampled insurance companies. This finding is in support of the notion that when a company's financial statement is being audited by big/large audit firm the financial reporting of such firm should be of high quality and it is also in agreement with prior studies like Herusetya, (2012), Mayangsari, (2004), Herusetya, (2009), (Pujilestari & Herusetya, (2013), Siregar et al., (2011) and Francis and Yu (2009) found that big auditors more likely give going concern opinion on audited reports, and the clients of big4 auditors are proved to have less aggressive profit management.

Conclusion and Recommendations

Financial reporting quality is fundamental to the decision making process of users especially the investor group who relied basically on financial statement audited by an external auditor. From the discussion of results and findings, the study concludes that accounting firm size plays a vital role in achieving a high quality of financial reporting as it is found that the companies under review engage mostly the Big4 audit firm in auditing their financial statement than the non-Big4 which impacted positively on the quality of financial reporting. Based on the above conclusions, the study recommends that other audit firms (non big4) should invest more resources in technology and staff training especially in specialized businesses like insurance so as to strengthen auditors' work and improve the financial reporting quality of the companies.

References

Adamu, S., and Kantudu, A. S. (2015). Compliance with public finance laws and quality of financial reporting in North Eastern State Nigeria.

International Journal of Advanced Research in Statistics, Management and Finance., 3 (1), https://www.google.com/url?url=https://www.researchgate.net/profile/Isahya_Dabari/publication/307601009_Effect_of_Information_Disclosure_on_Compliance_with_CAMA_2004_of_Listed_Telecommunication_Companies_in_Nigeria/links/57cc6f3c08aedb6d6d9ca519/Effect-of-Information-Disclosure-on-Compliance-with-CAMA-2004-of-Listed-Telecommunication-Companies-in-Nigeria.pdf&rct=j&frm=1&q=&esrc=s&sa=U&ved=0ahUKEwiegb-Yj9raAhXlF5oKHbgmCsEQFggSMAA&usg=AOvVaw2xBui8aX8D1OJ1KaM94u8l

Al-Shammari, B., Brown, P., Tarca, A., (2007)., An investigation of compliance with international accounting standards by listed companies in the Gulf Co-Operation council member states., The International Journal of Accounting. 43 (4), pp. 425-447, DOI: 10.1016/j.intacc.2008.09.003

Anthony, R. N., Hawkins, D. F., and Merchant, K. A. (2011). *Accounting: text and cases*. 13th Edition, Singapore: McGraw-Hill Companies, Inc, https://singapore.kinokuniya.com/bw/9780071289092

Asada, D. (2010). Statutory controls for financial accounting practice in Nigeria, http://dspace.unijos.edu.ng/bitstream/10485/1458/1/statutory%20controls%20for%20financial%2accounting%20practice%20in%20Nigeria.pdf [7/05/2013].

Azmi, F., and Mulyani, S. (2015). Factors that affect accounting information system success and its implication on accounting information quality. *Asian Journal of Information Technology*, 14 (5), pp. 154-161, DOI: 10.3923/ajit.2015.154.161

Badejo, M. (1998). Limitations and scope of insurance. *Hydrid Publishers Limited*, Akure, Ondo

Barde, I. M. (2009). Nigerian oil marketing companies and compliance with the requirements of Statement of Accounting Standard (SAS) 2. In K.I. Dandago (Eds.), *Contemporary issues in accounting, auditing and taxation* (104-125), Kano: Triumph Publishing Company Limited.

Becker, C., DeFond, M. Jiambalvo, J., Subramanyam, and K. R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research.*, 15 (1), pp. 1–24, https://ssrn.com/abstract=44835

Beest, F., Braam, G., and Boelens, S. (2009). Quality of financial reporting:

Measuring Qualitative Characteristics. Nijmegen Centre for Economics (NCE) Working Paper, pp. 9-108. Institute for Management Research, Radboud University Nijmegen.

Beuselinck, C., and Manigart, S. (2007). Financial reporting quality in private equity backed companies: the impact of ownership concentration., *Small Business Economics*, 16 (1), pp. 18-22, https://link.springer.com/article/10.1007%2Fs11187-006-9022-1

Beyersdoff, M., Bonham, M., Chan, W., Covic, A., Curtis, M., Danmola, T., Davies, M., Denton, T., Frykowska, J., Halloum, O., Hamilto, B., Kremp, B., Lloyd, M., Luke, J., Moll, E., Moore, R., O'Leary, V., Pankhurst, M., Qureshi, I., Richards, H., Rogerson, T., Seah-Tan, S. Sirocka, A. Vaidison, S. Waring, T. Williams, M. and Zeller, M. (2013). *International GAAP 2013: Generally Accepted Accounting Practice under International Financial Reporting Standards Volume 1*. United Kingdom: John Wiley and Sons, Ltd.

Carlin, T., Finch, N., and Laili, N. (2009). Investigating audit quality among big 4 Malaysian firms, Asian *Review of Accounting,* 17 (2), pp. 96-114, https://doi.org/10.1108/13217340910975251

Chen, Y., and Zhou, C. (2009). Auditor brand name, industry specialization, and earnings management: evidence from Taiwanese companies. *Int. J. Accounting, Auditing, and Performance Evaluation*, 9(3), pp. 185 -192, DOI: 10.1504/IJAAPE.2006.010301

Clinch, G., Stokes, D. J., and Zhu, T. (2012). Audit quality and information asymmetry between traders accounting and finance, *Accounting & Finance,* 52 (3), pp. 743-765, DOI: 10.1111/j.1467-629X.2011.00411.x

Cohen, J. Krishnamorthy, G., and Wright, A. (2004). The corporate governance mosaic and financial reporting quality, *Journal of Accounting Literature*, 23 (2), pp. 87-152, https://ssrn.com/abstract=1086743

Craswell, A., Francis, J., and Taylor, S. (1995). Auditor brand name reputations and industry specialization. *Journal of Accounting and Economics*, 6 (20), pp. 297–322.,

Dabor, A.O., and Dabor, E. L. (2015). Audit committee characteristics, board characteristics and financial reporting quality in Nigeria. *International Journal of Economics, Commerce and Management,* 3 (11), pp. 1292-1304, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwjHj_Ojr9faAhXoB5oKHXYpDZUQFggpMAA&url=http%3A%2F%2Fijecm.co.uk%2Fwp-

content%2Fuploads%2F2015%2F11%2F31180.pdf&usg=AOvVaw13J3Dx5LJCtHsmSllSCxL0

Dabor, E., and Tijjani, B. (2010). The impact of earnings management and corporate governance on firm performance, Bayero *International Journal of Accounting Research,* 4 (1), pp. 68-95.

Dabor, E., and Adeyemi, S. (2009). Corporate governance and the credibility of financial statement, *Journal of Business Systems, Governance and Ethics*, 4 (1), pp. 122-157, DOI: 10.15209/jbsge.v4i1.151

Dandago, K. I. (2009). *Financial Accounting simplified*, Adamu Joji Publishers, Kano. Nigeria

DeAngelo, L. (1981). Auditor size and audit quality, *Journal of Accounting and Economics*, 3 (3), pp. 183-189, DOI: 10.1016/0165-4101(81)90002-1

Dechow, P., Sloan, R., and Sweeney, A. (1996). Causes and consequences of earnings manipulation: An analysis of firms subject to enforcement actions by the SEC. *Contemporary Accounting Research.*, 13 (1), pp. 1-36, DOI: 10.1111/j.1911-3846.1996.tb00489.x

DeFond, M., Raghunandan K., and Subrama-nyam, R. (2002). Do non-audit service fees impair auditor independence? Evidence from going concern opinion decisions. *Journal of Accounting Research*, 5 (2), pp. 1247-1274, DOI: 10.1111/1475-679X.00088

FASB (1980). *Statement of financial accounting concepts No. 2. qualitative characteristics of accounting information*. Norwalk.

FASB (1999). International standard setting: a vision for the future. Norwalk,
http://www.fasb.org/timeline/timeline-assets/assets/downloads/1999_international-accounting-standard-setting_fin.pdf

FASB (2008). Financial Accounting Series, Statement of Financial Accountin., http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175821377542&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs

Fowokan, T. (2011). IFRS adoption in Nigeria-tax implications paper presented at CITN Seminar on IFRS adoption in Nigeria. http://www.docstoc.com/docs/89676635/IFRS-Adoption-in-Nigeria-Tax-Implications-Paper-presented-by-Mrs-Titilayo-Fowokan-ACA-ACTI-

CITN-Seminar-on-IFRS-Adoption-in-Nigeria-Overview-%EF%82%97-Introdu [30/07/2012].

Francis, J., Yu, M. (2009). The effect of big four office size on audit quality‟., *The Accounting Review.*, 84 (5), pp. 1521-1552, https://business.missouri.edu/publications/2009/effect-big-four-office-size-audit-quality

Francis, J. (2011). A framework for understanding and researching audit quality, *Auditing: A Journal of Practice & Theory*, 30 (2), pp. 125-152, DOI: 10.2308/ajpt-50006

Francis, J. R. (2004). What do we know about audit quality? *The British Accounting Review, 36* (4), PP. 345–368, DOI: 10.1016/j.bar.2004.09.003

Gaffikin, M. (2008). Accounting theory: research, regulation, and accounting practice. *Australia: Pearson Education Australia*, http://ro.uow.edu.au/commpapers/1681/

Geiger, A., and Dasaratha, R. (2006). Audit firm size and going concern reporting accuracy. *Accounting Horizons*, 20 (1), pp. 1-17, DOI: 10.2308/acch.2006.20.1.1

Hassan, U. S. (2013). Financial reporting quality, does monitoring characteristics matter? an empirical analysis of Nigerian manufacturing sector, *Business & Management Review.* 3 (2), pp. 147-161.

Hassan, S. U. (2011). Determinants of financial reporting quality; an in depth study of firms' structure., *Journal of Modern Accounting and Auditing* (USA), 2 (4), pp. 54-76.

Hassan, S. U., and Bello, A. (2013). Firm characteristics and financial reporting quality of quoted manufacturing firms in Nigeria. *International Journal of Accounting, Banking and Management*, 1 (6), pp. 47-63, http://ijabm.com

Herusetya A (2009). The influence of auditor size and auditor specialization towards earnings quality. *Accounting and Finance J. Indonesia, 6 (1), pp. 46-70.*

Herusetya, A. (2012). An Analysis of Audit Quality towards accounting earnings management: a study of the composite measure approach versus conventional measure. Study approach of composite measure versus conventional measure. *Accounting and Finance Journal Indonesia*. 9 (2), pp. 102-125.

Hussein, F., and Hanefah, M. (2013). Overview of surrogates to measure audit quality.,*International Journal of Business and Management, 8* (17), pp. 84–91, DOI: 10.5539/ijbm.v8n17p84

IASB (1989). Framework for the preparation and presentation of financial statements., https://www.iasplus.com/en/standards/other/framework

IASB (2008). Exposure draft on an improved conceptual framework for financial reporting: the objective of financial reporting and qualitative characteristics of decision-useful financial reporting information. London, https://www.iasplus.com/en/publications/global/ifrs-in-focus/2008/ed-cf-objective-and-qualitative-characteristics

Idigbe, A. (2007). A review of CAMA 1990: Issues in corporate governance audit committee and auditor independence. Paper Presented at the *Nigerian Accounting Standards Board 4th Annual Corporate Financial Reporting Submit and Dinner*, Lagos 14th November.

Jensen, M.C., and Meckling W.H. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics,* 3(4), pp. 305-360, DOI: 10.1016/0304-405X(76)90026-X

Jonas, G., Blanchet, J., (2000), Assessing quality of financial reporting, *Accounting Horizons* , 14(3), 353-363, https://doi.org/10.2308/acch.2000.14.3.353

Kantudu, A. S., and Samaila I. (2015). Board characteristics, independent audit committee and financial reporting quality of oil marketing firms: evidence from Nigeria. *Journal of Finance, Accounting and Management,* 6 (2), pp. 34-50.

Khalil. S. (2011). The riskiness of audit firm continuing clients' portfolio. *Management and Auditing Journal,* 26 (4), pp. 335-349, DOI: 10.1108/02686901111124657

Kieso, D., Weygandt, J., and Warfield, T. D. (2014). Intermediate Accounting IFRS Edition. *2nd Edition. China: John Wiley and Sons, Inc,* ISBN: 978-1-118-80069-0

Lee, T., and Ali, A. (2008). The audit expectation gap: a review of the contributing factors. *Journal of Modern Accounting and Auditing, 4* (8), pp. 30-37, http://connection.ebscohost.com/c/articles/35246644/audit-expectation-gap-review-contributing-factors

Li, Y. Stokes, D., Taylor, S., and Wong, L. (2009). Audit Quality, Accounting Attributes and the Cost of Equity Capital., *Accounting and Finance Association of Australia, 22 (2), pp. 76-92,* DOI: 10.2139/ssrn.1481823

Mackenzie, B., Coetsee, D., Njikizana, T., Chamboko, R., Colyvas, B., and Hanekom, B. (2012). *2012 Interpretation and Application of*

International Financial Reporting Standards. New Jersey: John Wiley and Sons, Inc, ISBN-13: 978-0470923993, ISBN-10: 0470923997

Mayangsari S. (2004). Empirical evidence of industry specialization auditors affect towards earnings response coefficient. *Accounting Research Journal Indonesia*, 7 (2), pp. 154-178.

McDaniel, L., Martin, R., and Maines, L. (2002). Evaluating financial reporting quality: the effects of financial expertise vs financial literacy. *The Accounting Review*, 77 (nd), pp. 139-167, http://www.jstor.org/stable/3203331

Mohamad, S., Nassir, A. (2010). Auditing firm reputation, ex ante uncertainty and the non-audit services by independent auditors, *Journal of Audit Practice, 5* (2), pp. 55-66.

Nyor, T. (2013). Financial reporting quality of Nigeria firms: users' perception. *International Journal of Business and Social Science, 4 (13), pp. 273-295,* https://ijbssnet.com/journals/Vol_4_No_13_October_2013/30.pdf

O'Keefe, T., and Westort, P. (1992). Conformance to GAAS reporting standards in municipal audits and the economics of auditing. *Research in Accounting Regulation, 6* (2), pp. 39–77.,

Pujilestari R., and Herusetya, A. (2013). The influence of audit quality over earnings management of real transaction – strategic income statement, *Accounting and Finance Journal Indonesia,* 15 (2), pp. 75-85.

Richard, E., and Victor, O. (2013). Analysis of insurance practices and economic growth in Nigeria, *Global Advanced Research Journal of Management and Business Studies*, 2 (1), pp. 063-070.

Schauer, P. (2002). The effect of industry specialization on audit quality: an examination using bid-ask spreads. *Journal of Accounting and Finance Research*, 10 (1), pp. 76-86, https://www.researchgate.net/publication/267378216_The_Effects_of_Industry_Specialization_on_Audit_Quality_An_Examination_Using_Bid-ask_Spreads_The_Effects_of_Industry_Specialization_on_Audit_Quality_An_Examination_Using_Bid-ask_Spreads

Seyyed, A., Mahdi, M., and Mohsen, K. (2013). An Investigation into the relationship between audit committee and audit quality", *Australian Journal of Basic and Applied Sciences*, 6 (10), pp. 409-416, https://ssrn.com/abstract=2355093

Siregar, S., Wibowo A., and Anggraita, V. (2011). Audit rotation and audit quality: evaluation of decree of the finance minister of the republic of

Indonesia number 423/KMK.06/2002 on the services of public accountants rotasi audit dan kualitas audit: *Accounting and Finance Journal Indonesia*, 8 (1), pp. 146-162.

Skinner, D., and Srinivasan, S. (2012). Audit quality and auditor reputation: Evidence from Japan. *The Accounting Review*, 87 (5), pp. 1737-1765, DOI: 10.2308/accr-50198

Sloan, R. (2001). Financial Reporting and Corporate Governance: A Discussion. *Journal of Accounting and Economics*, 32 (1-3), pp. 335-347, DOI: 10.1016/S0165-4101(01)00039-8

Mulyani, S. (2009). Sistem Informasi Manajemen Rumah Sakit: Analisis dan Perancangan. *Bandung: Abdi Sistematika*, ISBN: 9791990603, 9789791990608

Stajkovic, A., Luthans, F. (2001). Differential effects of incentive motivators on work performance. *Academy of Management Journal*, 44 (3), pp. 580-590, http://www.jstor.org/stable/3069372

Subramanyam, K., and Wild, J. (2009). Financial Statement Analysis. 10th Edition. Singapore: McGraw-Hill Education (Asia).

Sunghwan, K., Pae, S., and Kim, M. (2014). The effects of auditors' reputation and default risks on unethical usage of expenses in Korea. *ASBBS Annual Conference: Las Vegas*, 21 (1), pp. 26-48, http://asbbs.org/files/ASBBS2014/PDF/K/Kim_Pae_Kim(P407-422).pdf

Tate, S., and Feng, N. (2013). Perceived quality auditors in the non-profit sector: Evidence from request for proposal choices, *Mustang Journal of Accounting and Finance, 4 (2), pp. 65–96*, https://www.researchgate.net/publication/265384383_PERCEIVED_QUALITY_AUDITORS_IN_THE_NONPROFIT_SECTOR_EVIDENCE_FROM_REQUEST_FOR_PROPOSAL_CHOICES

Tasios, S., and Bekiaris, M. (2012). Auditor's perceptions of financial reporting quality: the case of Greece, *International Journal of Accounting and Financial, 2 (1), pp. 57-74*, DOI: 10.5296/ijafr.v2i1.1286

Titman, S., and Trueman, B. (1986). Information quality and valuation of new issues. *Journal of Accounting and Economics*, 8 (2), pp. 159-172, DOI: 10.1016/0165-4101(86)90016-9

Watts, R., and Zimmerman, J. (1983). Agency problems, auditing and theory of the firm: Some evidence. *Journal of Law and Economics*, 26 (3), pp. 613–633, http://www.jstor.org/stable/725039

Appendix 1

Table 5. Population of the Study

S/N	*Companies*	*Type of service*	*Year listed*
1	*African Alliance insurance Plc*	*Life*	*2009*
2	*AIICO Insurance Plc Plc*	*Composite*	*1990*
3	*Baico Insurance Plc*	*Life*	*2007*
4	*Consolidated Hallmark Insurance Plc*	*General*	*2008*
5	*Cornerstone Insurance Plc*	*Composite*	*2007*
6	*Custodian and Allied Insurance Plc*	*Life*	*2007*
7	*Equity Assurance Plc*	*General*	*2007*
8	*Goldlink Insurance Plc*	*Composite*	*2008*
9	*Great Nigeria Insurance Plc*	*Composite*	*2005*
10	*Guaranty Trust Insurance Plc*	*Life*	*2009*
11	*Guinea Insurance Plc*	*General*	*2003*
12	*IG Insurance Plc*	*Composite*	*2005*
13	*International Energy Insurance Plc*	*General*	*2007*
14	*Investment and Allied Insurance Plc*	*General*	*2008*
15	*LASACO Assurance Plc*	*Composite*	*1991*
16	*Law Union and Rock Insurance Plc*	*General*	*1990*
17	*Linkage Assurance Plc*	*General*	*2003*
18	*Mansard Insurance Plc*	*Composite*	*2009*
19	*Mutual Benefit Assurance Plc*	*General*	*2002*
20	*NEM Insurance Plc*	*General*	*1990*
21	*Niger Insurance Plc*	*Composite*	*1993*
22	*Oasis Insurance Plc*	*General*	*2007*
23	*Prestige Assurance Co. Plc*	*General*	*1990*
24	*Regency Alliance Insurance Plc*	*General*	*2008*
25	*Royal Exchange Assurance Plc*	*Life*	*1990*
26	*Sovereign Trust Insurance Plc*	*General*	*2006*
27	*Standard Alliance Insurance Plc*	*General*	*2003*
28	*Standard Trust Assurance Plc*	*General*	*2007*
29	*UNIC Insurance Plc*	*Life*	*2007*
30	*Unity Kapital Assurance Plc*	*General*	*2009*
31	*Universal Insurance Co. Plc*	*General*	*2008*
32	*WAPIC Insurance Plc*	*General*	*2005*

Source: Generated by the Researcher from NSE Daily Official Listing, 2016.

Appendix 2

Table 6. Measures to be used to Operationalize the Fundamental and Enhancing Qualitative Characteristics (including the Measurement Scales)

Relevance

Q.	*No Question*	*Operationalization*
R1	*To what extent does the presence of the forward -looking statement help forming expectations and predictions concerning the future of the company?*	*1= No forward-looking information*
		2= Forward-looking information not a part of subsection
		3= A part of subsection
		4= Extensive Predictions
		5= Extensive Predictions useful for decision making
R2	*To what extent does the presence of non-financial information in terms of business opportunities and risk compliment the financial information?*	*1= No non-financial information*
		2= Little non-financial information, no useful for forming expectations
		3= Useful non-financial information
		4= Useful non-financial information, helpful for developing expectations
		5= Non-financial information presents additional information which helps Developing expectations
R3	*To what extent does the company use fair value instead of historical cost?*	*1= Only historical cost*
		2= Most Historical cost
		3= Balance fair value/Historical cost
		4= Most fair value
		5= Only fair value
R4	*To what extent do the reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company?*	*1= No feedback*
		2= Little feedback on the past
		3= Feedback is present
		4= Feedback helps understanding how events and transactions influenced the company
		5= Comprehensive feedback

Faithful Representation

Q.	No Question	Operationalization
F1	To what extent are valid arguments provide to support The decision for certain assumptions and estimates in the annual report?	1= Only describe estimations
		2= general explanation
		3= Specific explanation of estimation
		4= Specific explanation, formulas explained etc
		5= Comprehensive argumentation
F2	To what extent does the company base its choice for certain accounting principles on valid arguments?	1= Changes not explained
		2= Minimum explanation
		3= Explained why
		4= Explained why + consequences
		5= No changes or comprehensive explanation
F3	To what does the company, in the discussion of the annual results, highlight the positive events as well as the negative events?	1= Negative events only mentioned in the footnotes
		2= Emphasize on positive events
		3= Emphasize on positive events, but negative events are mentioned; no negative events occurred.
		4= Balance positive and negative events
		5= Impact of positive/negative events is also explained
F4	Which type of auditors' report is included in the annual Report?	1= Adverse opinion
		2= Disclaimer of opinion
		3= Qualified Opinion
		4= Unqualified opinion: Financial figures
		5= Unqualified Opinion: Figures + internal control
F5	To what extent does the company provide information On corporate governance	1= No description CG
		2= Information on CG limited, not a part of subsection
		3= Apart of subsection
		4= Extra attention paid to information concerning CG
		5= comprehensive description of CG

Understandability

Q.	No Question	Operationalization
U1	To what extent is the annual report presented in a well-organized manner?	Discretionary judgment based on:
		1= Complete table of contents
		2= Headings
		3= Order of components
		4= Summary/conclusion at the end of each subsection
U2	To what extent are the notes to the balance sheet and the Income statement sufficiently clear	1= No graphs
		2= 1-2 graphs
		3= 3-5 graphs
		4= 6-10 graphs
		5= > 10 graphs
U3	To what extent is the use of language and technical jargon in the annual report easy to follow?	1= Much jargon (industry), not explained
		2= Much jargon, minimal explanation
		3= Jargon is explained in text/glossary
		4= Not much jargons, or well explained
		5= No jargon, or extraordinary explanation
U4	Which type of auditors' report is included in the annual Report?	1= Adverse opinion
		2= Disclaimer of opinion
		3= Qualified Opinion
		4= Unqualified opinion: Financial figures
		5= Unqualified Opinion: Figures + internal control
U5	What is the size of the Appendices and/or glossary?	1= No Appendix/glossary
		2= Less than one page
		3= Approximately one page
		4= 1 to 2 page
		5= Greater than 2 page

Comparability

Q.	No Question	Operationalization
C1	*To what extent do the notes to changes in accounting policies explain the implication of the change?*	*1= Changes not explained*
		2= Minimum explanation
		3= Explained why
		4= Explained why + consequences
		5= No changes or comprehensive explanation
C2	*To what extent do the notes to revisions in accounting estimates and judgments explain the implications of the revision?*	*1= Revision without notes*
		2= Revision with few notes
		3= No revision/clear notes
		4= Clear notes + implications (past)
		5= Comprehensive notes
***C**3*	*To what extent did the company adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?*	*1= No adjustment*
		2= Described adjustments
		3= Actual adjustments (one year)
		4= 2 years
		5= > 2 years + notes
***C**4*	*To what extent does the company provide a Comparison of the results of current accounting period with previous accounting periods*	*1= No comparison*
		2= Only with previous year
		3= With 5 years
		4= 5 years + description of implications
		5 = 10 years + description of implications
***C**5*	*To what extent is the information in the annual Report comparable to information provided by Other organizations?*	*Judgment based on :*
		- accounting policies
		- structure
		- Explanation of events In other words: an overall conclusion of comparability compared to annual reports of other organizations

Timeliness

Q.	No Question	Operationalization
T1	*How many days did it take for the auditor to sign the annual report after book-year end?*	*Natural logarithm of amount of days*
		1= 120 – 150days
		2= 90 – 120days
		3= 60 – 90days
		4= 30 – 60 days
		5= 1 - 30days

***Source**: Adopted from Samaila (2014) and Adamu and Kantudu (2015)*