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QUALITY FINANCIAL REPORTING AND FINANCIAL DISCLOSURE IN NIGERIA: A CASE STUDY OF SELECTED QUOTED INSURANCE FIRMS IN NIGERIA STOCK EXCHANGE

Eniola Jacob Omoniyi

Lecturer, Department of Accounting, College of Management Sciences,
Joseph Ayo Babalola University, Nigeria
niyieniola@yahoo.com

Oladutire E. Oladeji

Lecturer, Department of Accounting, Faculty of Management and Social Sciences,
Adekunle Ajasin University Akungba, Nigeria
eoladutire@yahoo.com

Abstract

The paper examines quality financial reporting and financial disclosure. The respondents were drawn from managers of insurance firms in Nigeria. The hypotheses were tested using descriptive statistics, Pearson's correlation coefficient and regression analysis. Results indicated that there is significant and strong positive correlation between Quality Financial Reporting and Financial Disclosure. The paper concludes that quality financial reporting is a process of making available the accounting and economic events of an organization for the purpose of providing valuable information that can disclose accurate and reliable business activities about an organization for the use of relevant stakeholders. The paper recommends that Insurance firms should have good financial reporting systems that show financial statements that are prepared in accordance with the Generally Accepted Accounting Principle (GAAP) in order to reveal all the relevant elements and standards of accounting; and Insurance firms should make financial disclosures in compliance with statutory laws so as to reveal the entire details that can be devoid of scandals and complexity in order to boost the confidence of investors and other users of accounting information.

Keywords: Financial Disclosure, Quality Financial Reporting, Accounting Standards, GAAP

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INTRODUCTION

Over the years, studies have revealed that financial reports are essential processes of making financial disclosures (Hooper, 2010). This is because a financial report shows a company's revenues and expenses (Lasher, 2008). Financial reports are essential documents that shed light on companies' economic health, highlighting top leadership's dexterity in managing corporate resources. Knowing the components of a financial statement are important, as it helps the organization understand whether a firm is profitable or is struggling financially (Codjia, 2013).

Financial reporting involves the process of providing accounting and economic events about business transaction for the purpose of updating managers and stakeholders and enhances decision-making. In the transaction of business, it is observed that once a business starts producing goods and services, executive managers must review each level of the company to ensure that each department is functioning at its peak. Some departments may need to be overhauled to re-create a competitive environment that produces high-quality goods and services (Rossi and Blackburn, 2012).

Additionally, management uses accounting information to decide if their company could improve her operations by purchasing a competitor or enter a new market with their existing production facilities. The biggest need for financial report is to provide accounting information for the purpose of determining the overall profitability. Consequently, sales, costs of manufacturing, inventory, and expenses are all recorded and presented to company management so the company's profit levels can be determined (Chiappetta, Shaw and Wild, 2009). Financial statements like the balance sheet or statement of cash flows may also be prepared so executive management can assess the value of the company and the cash-generating functions of business operations. Consequently, financial-reporting expertise gives an organization the ability to compare corporate investment results in the short and long terms. Thus, against the backdrop of these essential details, the study seeks to examine Quality Financial Reporting and Financial Disclosure of Insurance Companies in Nigeria.

Statement of the Problem

Accounting information is used to provide financial reports. Thus, the purpose of accounting is to provide information that is useful to decision makers. The full-disclosure principle means that the financial reports should include any information that could affect the decisions made by external users of the financial reports. The benefit of that financial information is that the cost of the information should exceed the costs of providing the information. Financial reporting involves presenting financial data of a company's operating performance, position and funds

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flow for an accounting period. Financial statements should not provide misleading information that can lead to financial fraud (Briggs and Bamson, 2013). Thus, financial statements alongside related information/documents may be contained in various forms mainly for external party use such as in the annual report.

Essentially, financial report provides information about investment and financial analysis. Investing comes up when companies have a solid understanding of their profitability, which propels them to begin to make decisions on investing their cash and retained income from business operations. Executive management decides what amount of cash should be reinvested into a project or business and what amount should be invested in interest-bearing securities (Obara and Eyo, 2000). Companies will use these securities investments to generate cash outside business operations, giving them higher cash flows. Typically, accountants must track these investments to ensure that the company does not take on too much investment risk. Performance Analysis comes up when the financial transactions of a company are properly recorded and presented in financial statements. It involves when accountants review the information to determine the strength of business operations. Typically, accountants use financial ratios to break down the financial statements and compare them to the industry or competitors. This analysis will help management find weak areas in the company and help allow them to find solutions for strengthening these operations. Awareness about financial disclosure is growing. But why are international bodies such as the G20 pushing for them, and why should citizens care? Essentially, A financial report should answer certain basic financial questions:

- Is the business making a profit or suffering a loss, and how much?
- How do assets stack up against liabilities?
- Where did the business get its capital, and is it making good use of the money?
- What's the cash flow from the profit or loss for the period?
- Did the business reinvest all its profit?
- Does the business have enough capital for future growth?

However, when the above questions cannot be answered by the financial report, then its disclosure is fraudulent. Thus, the study seeks to assess how financial reporting enhances the declaration of assets of a firm. This is because financial disclosure (also known as asset declaration) refers to a system where public officials must periodically declare information on their assets, income, business activities, interests, etc. Financial disclosure systems can be used for the prevention, detection, investigation, as well as prosecution of corruption. These in turn can lead to promoting accountability among public officials, avoiding conflict of interest and increasing citizen trust in public institutions.

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Research Hypothesis

Using the statement of the problem as the backbone of the paper, a broad hypothesis is invented.

H0: There is no significant relationship between quality financial reporting and fraudulent financial disclosures of insurance firms.

REVIEW OF RELATED LITERATURE

A financial report refers to a formal record that contains financial activities of a person, business or entity. Some of them can also contain financial policies and management decisions of the company (Chiappetta, Shaw & Wild, 2009). It is also called a financial statement for making accounting to provide the language of business. If "accounting is the language of finance" (Lasher, 2008, p. 9) then financial reporting is the "communication of financial information useful for making investment, credit, and other business decisions" (Wild, Shaw, & Chiappetta, 2009, p. 681) Such communications include general purpose financial statements such as income statements (now statements of comprehensive income), balance sheets (now statements of financial position), equity reports, cash flow reports, and notes to these statements. Additionally, items such as SEC filings, press releases, meeting minutes, and auditor's reports are also included in financial reporting (Wild, Shaw and Chiappetta, 2009, p. 681). Many financial reports, or the accounts and data they represent, are subject to various regulations and standards from organizations such as the Securities Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), and the International Accounting Standards Board (IASB) (Wild, Shaw, & Chiappetta, 2009, p. 9). Much like any language, financial statements could have their own "dialect" so to speak. For example, knowing about the use of cash-based accounting versus accrual based accounting could impact some very serious business or investment decisions. The various regulations, standards, and Generally Accepted Accounting Principles (GAAP) helps to make sure we're all on the same page (Rossi and Blackburn, 2012).

According to Chiappetta, Shaw and Wild (2009), in the broad sense of the term, everyone uses financial reports! We all receive receipts when we make purchases from stores and we all receive bills. In a sense, these are both financial reports that communicate to us the status of our accounts or individual transactions. When we focus on business, however, we can more easily focus on managers, investors, creditors, and even the government. Managers use financial reports to make business decisions. For example, if a manager of a manufacturing firm saw from internal financial and inventory reports that product returns were high then that

manager might push for increased quality control. Investors and potential investors alike use general-purpose financial reports so frequently that companies often release them together in a bundle called “investor reports,” “annual reports,” or “shareholder reports.” Investors would use this information to help make a decision about whether they will buy, sell, or hold onto a particular company’s stock. Another large group of people who use financial reports are creditors. A creditor would use financial reports to determine their risk in loaning money to a particular company (Rossi and Blackburn, 2012).

The financial report tells the tale of how a company makes money and expands. Consequently, in order to comply with accounting norms and regulatory guidelines, companies must prepare four types of accounting reports. These statements include balance sheets, statements of profit and loss, statements of cash flows and statements of retained earnings (Codjia, 2013).

A balance sheet is the most important financial statement that investors and regulators keep a close eye on. Also known as a statement of financial position or statement of financial condition, the report indicates a firm's assets, liabilities and equity capital. To prepare an accurate balance sheet, you must display all items separately. In other words, present assets distinctly from liabilities and equity items. Assets are economic resources that an organization owns and uses in its operating activities. "Short-term" and "long-term" are concepts that accountants use to distinguish resources, depending on the length of time the assets will serve in operating activities. A company uses short-term assets, such as cash, accounts receivable and inventories, in its operations for 12 months or less. Long-term assets, such as real estate and equipment, serve for more than a year. Liabilities are debts a company must repay. Examples include vendors payable, taxes and corporate bonds. Equity capital represents corporate owners' investments in a company.

An income statement is also referred to as statement of income or profit and loss (P&L) statement. A P&L indicates an organization's expenses and revenues. Revenues include earnings from sales and service commissions. Expenses include costs of goods, salaries, insurance and rent. To calculate a company's net income, subtract expenses from revenues.

Financial reports are the documents and records companies put together to track and review how much money their business is making (or not). The purpose of financial reporting is to deliver this information to the lenders and shareowners (the stakeholders) of their business. Businesses often assume that the readers of the financial statements and other information in their financial reports are fairly knowledgeable about business and finance, in general, and understand basic accounting terminology and measurement methods, in particular.

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Financial reporting is governed by statutory and common law; and it should be done according to ethical standards. Unfortunately, financial reporting sometimes falls short of both legal and ethical standards. These standards and requirements for accounting and financial reporting often change (Rossi and Blackburn, 2012). The reasons for these changes include the following:

- Scandals**:** Without a doubt, the rash of accounting and financial reporting scandals over the last two decades was one major reason for the step-up in activity by the standards setters. The Enron accounting fraud not only brought down a major international CPA firm (Arthur Andersen) but also led to passage of the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley includes demanding requirements on public companies regarding establishing and reporting on internal controls to prevent financial reporting fraud.
- Complexity**:** Doing business has an ever-increasing level of complexity. When you look at how business is being conducted these days, you find more and more complexity — for example, the use of financial derivative contracts and instruments.

The legal exposure of businesses has expanded, especially in respect to environmental laws and regulations. There's also a move toward the internationalization of accounting and financial reporting standards (Rossi and Blackburn, 2012).

RESEARCH METHODOLOGY

Research Design

The paper is an empirical one, and it adopted the quasi-experimental research design because it has the characteristics of a survey (Baridam, 2001).

Population and Sampling

The total population of this study is all insurance firms in Nigeria. This was to afford the researchers the opportunity not only to know the number of insurance firms in Nigeria and the types of product they offer but also to know what determines their growth. However, to access the required insurance firm, the purposive sampling technique was adopted. A sample of 5 insurance firms was used. This was due to the easy accessibility of the insurance firms in Nigeria.

Data Analysis Techniques

The paper adopted descriptive statistics, Pearson's correlation coefficient and regression analysis to test the hypotheses. The regression model is used to identify the relationship

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between the quality financial reporting and financial disclosure. The study adopted the model of 5Determinants of Insurance Companies Profitability: An analysis of Insurance Sector of Pakistan developed by Malik (2011). Consequently, the regression equation is developed thus:

$$QFR = \alpha + FD + \varepsilon$$

In above regression model the independent variable enter the equation at once to determine the relationship between the dependent variable and whole set of predictors. In this equation QFR is the Quality Financial Reporting in insurance companies (dependent variable) for the only hypothesis in this paper. Financial Disclosure (FD) will be used to measure the relevance of the items in financial statements that should be disclosed for the use as scrutiny of accounting information users, while α is constant. Analysis was carried out using SPSS version 17.

Data Collection and Response Rate

A total of 62 copies of questionnaire to the strategic managers of five (5) insurance companies that are operating in the South-South Geo-Political zone of Nigeria. The insurance companies surveyed were Universal Insurance Company Plc, Staco Insurance Plc, Sovereign Trust Insurance Plc, Cornerstone Insurance Plc, and Guinea Insurance Plc. Out of this number, 52 were returned, while 10 could not be retrieved. After checking for errors and wrongly completed questionnaire, a total of 40 copies were found usable; while, 12 copies of the questionnaire were unusable. The 40 usable copies of the questionnaire were administered to 40 strategic managers of the Insurance companies. This provided a response rate of 64.52%.

ANALYSIS AND FINDINGS

Table 1: The Descriptive Statistics

VARIABLES	MEAN	STANDARD DEVIATION
QFR	0.1821	0.189
FD	15.031	1.087

The results of the Descriptive Statistics provided the mean and standard deviation for each variable. Concerning the values of Table 1 above, the mean value of Quality Financial Reporting (QFR) is 0.1821 and the value of standard deviation is 0.189. Financial Disclosure (FD) has a mean value of 15.031 and a standard deviation of 1.087. There is a difference between the mean of QRR and FD.

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Table 2: Correlation

VARIABLES	PEARSON CORRELATION	SIGNIFICANT
FD	0.898	0.000

The analysis above revealed a significant relationship between Financial Disclosure and Quality Financial Reporting. Thus, result shows that there is significant and strong positive correlation between Quality Financial Reporting and Financial Disclosure with a significant value of 0.000.

Table 3: Regression Analysis

VARIABLES	STD.ERROR	BETA	T-VALUE	P-VALUE
(Constant)				
FD	0.016	0.083	2.142	0.033

Table 4: Other values of Regression Analysis

Statistic	Value
R-Squared	0.846
Adjusted R-Square	0.816
F-Statistics	92.336
Prob (F-Statistics)	0.000

The result above reveals the elements of financial disclosure on dependent variable. Results show that Quality Financial Reporting as measured by Financial Reporting is positively related. R-square reveals that only 84.6% of variations in dependent variable (FD) are explained by the variations in the independent variable. The adjusted R-square is slightly below the R-square with the value of 81.6%. F-statistics shows the validity of model as its value 92.336 is well above its Prob (F-statistics) value of 0.000.

CONCLUSION

The paper examined Quality Financial Reporting and Financial with focus on quoted Insurance Companies in Nigeria. Financial report gives details concerning investment and financial analysis. Investing is a means where resources are put into business in the form of projects for the realization gains in a future date. The use of financial reporting methods guides a business operation on the direction it is going. This is because the financial report makes financial disclosure to ascertain the correctness, reliability and relevance of all accounting and economic

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events that is carried out in an organization. This view supports the notion of (Hooper, 2010; Chiappetta, Shaw & Wild, 2009 and Codjia, 2013).

The study empirically tested a broad hypothesis thus "there is no significant relationship between quality financial reporting and fraudulent financial disclosures of insurance firms". The result indicated that Quality Financial Reporting as measured by Financial Reporting is positively related. Thus, it was concluded that there is significant and strong positive correlation between Quality Financial Reporting and Financial Disclosure. This corroborates the views of (Codjia, 2013). This is because a financial report is an accounting data summary that provides insight into an organization's financial affairs, focusing on how the organization funds its activities (Codjia, 2013). Thus, we concluded that quality financial reporting is a process of making available the accounting and economic events of an organization for the purpose of providing valuable information that can disclose accurate and reliable business activities about an organization for the use of relevant stakeholders.

RECOMMENDATIONS

In the light of the findings, following recommendations were made:

1. Insurance firms should have good financial reporting systems that show financial statements that are prepared in accordance with the Generally Accepted Accounting Principle (GAAP) in order to reveal all the relevant elements and standards of accounting.
2. Insurance firms should make financial disclosures in compliance with statutory laws so as to reveal the entire details that can be devoid of scandals and complexity in order to boost the confidence of investors and other users of accounting information.

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