

Regulatory Compliance and Financial Reporting Quality: The Moderating Role of Audit Quality in Listed Manufacturing Companies in Nigeria

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ABSTRACT

Regulatory compliance refers to the extent to which firms adhere to applicable laws, accounting standards, and disclosure requirements. Although compliance is expected to improve transparency in financial reporting, it does not always guarantee high-quality reporting, as firms may satisfy formal requirements without faithfully reflecting underlying economic realities. This limitation highlights the importance of examining factors that can strengthen the relationship between regulatory compliance and financial reporting quality, particularly audit quality. Against this backdrop, this study examined the effect of regulatory compliance on the financial reporting quality of listed manufacturing companies in Nigeria, with audit quality serving as a moderating variable. Specifically, the study investigated the influence of accounting-based and non-accounting-based regulatory compliance on financial reporting quality and assessed the moderating role of audit quality. An ex-post facto research design was adopted using secondary data obtained from the annual reports of manufacturing firms listed on the Nigerian Exchange Group over the period 2015–2024. The population comprised 54 listed manufacturing companies as of 31 December 2024, while a sample of 40 actively listed firms was selected using a census sampling technique. Data were analysed using the Driscoll–Kraay standard error regression technique to address cross-sectional dependence and heteroskedasticity. The findings revealed that accounting-based regulatory compliance had a positive but insignificant effect on financial reporting quality, while non-accounting-based regulatory compliance had a positive and significant effect. Furthermore, audit quality significantly moderated the relationship between regulatory compliance and financial reporting quality. The study concludes that regulatory compliance enhances financial reporting quality, particularly when supported by strong audit quality, and recommends stronger enforcement of regulatory frameworks and the engagement of high-quality auditors among listed manufacturing firms in Nigeria.

Keywords: Financial reporting Quality, Accounting-based Regulatory compliance, Non-Accounting-Based Regulatory Compliance, Audit Quality.

1. INTRODUCTION

Financial reporting quality is important because it provides useful information for stakeholders' decision-making. High-quality financial reports improve the relevance, reliability, and faithful representation of financial information, thereby enhancing transparency and accountability (Cuong & Ly, 2017; Bukenya, 2014; Ștefănescu, 2013; Hope et al., 2013). Improved financial reporting quality has also been linked to reduced cost of capital and increased corporate profitability (Armstrong et al., 2010; Legenzova, 2016; Al-Tahat, 2015; Hirst et al., 2004). Furthermore, it strengthens stakeholders' confidence in organizations through greater transparency and accountability (Pina et al., 2010).

Conversely, poor financial reporting quality can misrepresent an entity's financial position and performance, thereby misleading users and impairing decision-making (Jaballah et al., 2014; Chan-Jane et al., 2015). It may result in financial losses, weaken operational sustainability, and in severe cases threaten the going concern status of firms (Martínez-Ferrero, 2014; Tarus et al., 2015). Despite regulatory reforms and improved accounting standards, variations in financial reporting quality persist across organizations, contributing to information asymmetry, security mispricing, and financial market instability.

Regulatory compliance refers to adherence to accounting standards, disclosure requirements, and relevant laws guiding financial reporting (Jamal & Shah, 2017; Iyoha, 2011). It serves as a governance mechanism for improving accountability and reducing manipulation (Post & Mahon, 2018). Compliance with frameworks such as IFRS enhances transparency and reduces information asymmetry (Healy & Palepu, 2016; Haw et al., 2004). Accounting-based regulations like IFRS improve comparability, reliability, and reporting discipline (Ball, 2006), while strong accounting standards are associated with reduced earnings manipulation and improved reporting quality (Dechow et al., 2010; Barth et al., 2008). However, their effectiveness depends on strong enforcement and institutional support.

Non-accounting based regulations such as corporate governance systems, securities laws, and regulatory oversight also influence financial reporting quality (Bushman et al., 2001; Leuz et al., 2003). Effective corporate governance enhances accountability, transparency, and reporting

reliability, while weak governance structures increase the risk of misreporting (Abiodun et al., 2024; Fekadu, 2015; OECD, 2015).

Audit quality is another major determinant of financial reporting quality. It reflects the auditor's ability to detect and report material misstatements in financial statements (DeFond & Zhang, 2014). High audit quality improves the credibility of financial reports through auditor competence, independence, and adherence to auditing standards (Christensen et al., 2016; Zalata et al., 2020). Strong audit quality also constrains earnings manipulation and reinforces the effectiveness of regulatory compliance by ensuring that compliance is substantive rather than symbolic (Basu, 1997; Dechow & Dichev, 2002).

Overall, financial reporting quality is influenced by regulatory compliance, accounting standards, corporate governance, and audit quality. These institutional mechanisms collectively promote transparency, accountability, credibility, and the usefulness of financial information in modern economies.

Objectives of the Study

The general objective of this study is to determine the influence of regulatory compliance on financial reporting quality of listed manufacturing companies in Nigeria. While the specific objectives are to:

- i. investigate the effect of accounting-based regulatory compliance on financial reporting quality of listed manufacturing companies in Nigeria
- ii. evaluate the influence of non-accounting-based regulatory compliance on financial reporting quality of listed manufacturing companies in Nigeria
- iii. explore the extent to which external audit quality moderate the relationship between regulatory compliance and financial reporting quality of listed manufacturing

2.0 LITERATURE REVIEW

2.1 Conceptual Review and Clarification

In line with the scientific research approach, this section clearly defines and conceptualizes the study variables to reduce measurement errors and enhance the validity of findings. It provides precise explanations of both dependent and independent variables. The conceptual review further offers a systematic and comprehensive discussion of key concepts, clarifying their meanings, scope, and interrelationships within the context of financial reporting quality (FRQ). This ensures a solid theoretical foundation for the study.

2.1.1 Financial Reporting Quality

Financial Reporting Quality (FRQ) is an important concept in accounting and finance because it promotes transparency, accountability, and efficient capital markets. Financial reports reduce information asymmetry and support informed decision-making by providing reliable information about a firm's financial performance and position (Healy & Palepu, 2011; Lambert et al., 2007; Bushman & Smith, 2003). High-quality financial reporting also reduces the cost of capital by lowering investors' perceived risk and has become increasingly important in the global business environment (Ashbaugh-Skaife et al., 2009; Krishnamurti et al., 2005; Kothari, 2015).

Conceptually, FRQ is multidimensional and generally refers to the accuracy, reliability, and decision usefulness of financial information (Hundal, 2020). It also reflects the quality of disclosures, managerial judgments, and accounting policy choices (Jonas & Blanchet, 2000). As a result, FRQ extends beyond mere regulatory compliance to include the faithful representation of a firm's economic reality.

Because of its complexity, FRQ is measured using different proxies. The most common measure is earnings quality, which assesses the extent to which reported earnings reflect true economic performance and are free from manipulation (Wright, 2016; Bushman & Piotroski, 2006). Other measures include disclosure quality, accrual quality, accounting conservatism, timeliness, and value relevance (Barton & Waymire, 2004; Khan et al., 2018).

Theoretically, FRQ is rooted in agency theory, which suggests that high-quality reporting reduces conflicts between managers and shareholders by minimizing information asymmetry. Its effectiveness is influenced by factors such as corporate governance, regulatory enforcement, and audit quality, particularly in emerging economies. Therefore, this study adopts earnings quality as the primary proxy for FRQ while recognizing the complementary roles of disclosure quality and regulatory compliance.

2.1.2 Earning quality

Earnings quality is a key concept in financial accounting that reflects how well reported earnings represent a firm's actual economic performance and support decision-making (Dechow et al., 2010). High-quality earnings enhance earnings informativeness and help investors evaluate firm performance and future prospects (Beaver et al., 2011; Fan & Wong, 2002; Vafeas, 2000). According to Schipper and Vincent (2003), earnings quality includes faithful representation, predictive ability, and decision usefulness, while Penman and Zhang (2002) emphasize earnings persistence and sustainability. The informational importance of earnings is also supported by evidence that stock prices react to earnings announcements (Ball & Brown, 1968).

Measures of earnings quality are broadly classified into time-series measures, which focus on persistence and predictability (Collins & Kothari, 1989; Dichev & Tang, 2009), and accrual-based measures, which examine discretionary accruals and earnings management (Schipper & Vincent, 2003). The Jones (1991) model and its variants are widely used, although alternative models such as Dechow and Dichev (2002), McNichols (2002), and Francis et al. (2008) provide improved approaches to assessing accrual quality.

Recent studies show that corporate governance, audit quality, IFRS adoption, XBRL, and ESG disclosures improve earnings quality by enhancing transparency and reducing earnings manipulation (Cascino et al., 2021; Li et al., 2024; Chen et al., 2024; Al-Shaer & Zaman, 2021; Broadstock et al., 2024). In developing economies such as Nigeria, institutional and enforcement weaknesses continue to affect earnings quality, creating the need for stronger governance and regulatory oversight. Consequently, this study adopts an accrual-based

measure of earnings quality as a proxy for financial reporting quality because of its effectiveness in detecting managerial discretion and earnings management practices.

2.1.3 Regulatory Compliance

Regulatory compliance is an essential aspect of financial reporting that promotes accountability, transparency, and investor protection in publicly listed firms. It refers to the extent to which organizations comply with laws, standards, and reporting guidelines governing financial reporting practices (Jamal & Shah, 2017; Iyoha, 2011). As a governance mechanism, it helps enforce disclosure discipline, reduce financial manipulation, and improve reporting quality (Post & Mahon, 2000).

Regulatory compliance enhances transparency, minimizes information asymmetry, and improves the reliability and usefulness of financial reports (Healy & Palepu, 2016). In practice, it involves adherence to frameworks such as IFRS, CAMA, and regulatory oversight by institutions including the FRCN and SEC (Haw et al., 2004). Compliance is further strengthened through disclosure requirements, internal controls, ethical accounting practices, and external audits, which help reduce earnings management and financial misstatements (DeFond et al., 2012).

The concept is grounded in agency and stakeholder theories, where compliance serves as a monitoring mechanism that protects shareholders and other stakeholders. Following Post and Mahon (2000), this study conceptualizes regulatory compliance as a mechanism for ensuring high-quality financial reporting through adherence to accounting-based regulations (e.g., IFRS) and non-accounting-based regulations such as corporate governance codes, CAMA, SEC, and FRCN guidelines. Overall, regulatory compliance is both a legal and strategic tool for enhancing financial reporting quality and strengthening investor confidence.

2.1.4 Accounting based regulations

Accounting-based regulations refer to the formal standards and principles that guide the recognition, measurement, presentation, and disclosure of financial information in corporate reporting. Their primary objective is to enhance transparency, comparability, reliability, and

credibility of financial statements, thereby reducing information asymmetry and improving decision usefulness for stakeholders (Healy & Palepu, 2011).

Globally, these regulations are largely represented by International Financial Reporting Standards (IFRS), which promote consistency and comparability in financial reporting across jurisdictions. IFRS also function as institutional mechanisms that constrain opportunistic reporting behavior and improve disclosure quality (Ball, 2006). In addition, accounting-based regulations strengthen corporate governance by limiting managerial discretion and reducing earnings manipulation, leading to improved earnings quality and investor confidence (Dechow et al., 2010; Barth et al., 2008).

Recent literature highlights the principles-based nature of IFRS, which allows professional judgment while ensuring faithful representation. However, the effectiveness of these regulations depends on enforcement quality, legal systems, and governance structures. In this study, accounting-based regulations are operationalized through IFRS, given their role in improving disclosure quality, comparability, and value relevance of financial information, particularly in emerging economies. Overall, accounting-based regulations are fundamental to achieving high-quality, reliable, and decision-useful financial reporting.

2.1.5 Non- Accounting Based Regulation

Non-accounting based regulations are institutional and regulatory mechanisms that influence corporate reporting practices without directly specifying accounting measurement or disclosure rules. They operate through governance systems, legal enforcement, market discipline, and oversight institutions to promote transparency, accountability, and reliability in financial reporting (Bushman et al., 2001; Leuz et al., 2003).

These regulations include corporate governance codes, securities laws, stock exchange listing requirements, and regulatory oversight bodies, which complement accounting standards such as IFRS by strengthening the institutional environment for financial reporting quality (Bushman et al., 2001; Leuz et al., 2003; Ball, 2006). In this study, non-accounting based regulations are operationalized through corporate governance practices, defined as the system by which firms are directed and controlled (OECD, 2015).

Effective corporate governance enhances accountability, reduces managerial opportunism and information asymmetry, and improves the credibility of financial reporting (Abiodun et al., 2024). Prior studies further show that strong governance systems promote organizational integrity, while weak governance increases the likelihood of financial misstatements and corporate distress (OECD, 2015). Similarly, Fekadu (2015) argues that governance mechanisms ensure compliance with regulatory expectations and protect stakeholder interests through ethical and transparent corporate behavior. Overall, non-accounting based regulations play a vital role in improving financial reporting quality by strengthening accountability and investor confidence.

2.1.6 External audit Quality

Audit quality refers to the effectiveness of the audit process in ensuring that financial statements present a true and fair view of a firm's financial position. It is commonly defined as the likelihood that auditors provide reasonable assurance that financial reports are free from material misstatements (Oyebamiji, 2020; Khoa, 2024) and reflects the overall excellence of the audit process (Faiza & Nur, 2023). It is also viewed as an independent evaluation mechanism that ensures compliance with standards and organizational objectives (Laili et al., 2022; Smith et al., 2023). Consequently, audit quality enhances transparency, accountability, and stakeholder confidence (Ogbodo & Akabuogu, 2018; Usifoh et al., 2019).

Audit quality reduces information asymmetry and managerial opportunism, thereby improving the credibility of financial reporting and protecting investors' interests (Onaolapo et al., 2017; DeFond & Zhang, 2014). Its key determinants include auditor competence, independence, ethical compliance, audit methodology, and effective interaction with audit committees and stakeholders (Ibrahim & Ali, 2018; Zalata et al., 2020; Oladejo et al., 2020; Chae et al., 2020).

Conceptually, audit quality is examined through inputs, processes, and outcomes. Inputs include auditor competence, audit fees, independence, and audit committee effectiveness (Assad & Alshurideh, 2020; Husain et al., 2020), while outcomes focus on financial statement reliability, misstatement detection, and reporting accuracy (DeFond & Zhang, 2014). However, there is no universally accepted measure of audit quality (CAQ, 2016; IASB, 2014). Therefore, studies commonly use input-based proxies such as auditor characteristics and audit fees, and

output-based proxies such as discretionary accruals, restatements, and market responses (DeFond & Zhang, 2014; Basu, 1997; Dechow & Dichev, 2002). Overall, combining both approaches provides a more comprehensive assessment of audit quality.

2.2 Empirical Review

2.2.1 Summary of Empirical Literature on accounting-based regulatory compliance (IFRS Adoption) and Financial Reporting Quality (FRQ)

The reviewed studies generally show that IFRS adoption, compliance, and enforcement improve financial reporting quality (FRQ), although the effects vary across contexts. Several studies, including Christensen et al. (2021), Emmanuel (2021), Amankwa et al. (2020), Armstrong et al. (2019), Egiyi (2022), and Olowookere et al. (2025), find that IFRS adoption reduces earnings management, enhances transparency and reliability, and improves the value relevance of financial information. Similarly, Mohammed et al. (2021) and Japhet (2022) report improvements in financial statement quality through better disclosure and cash flow reporting.

However, some studies provide contrary evidence. Matthew et al. (2024) find that IFRS adoption increased discretionary accruals in certain Nigerian firms, suggesting that IFRS may not always constrain earnings manipulation. Likewise, Audu and Ken (2025) report that although IFRS changed reporting content, the reliability of reports remained similar before and after adoption.

The literature further emphasizes the importance of enforcement and institutional support. Catalin et al. (2021) argue that effective IFRS implementation depends on skilled regulatory personnel and strong monitoring mechanisms, while Eshaq et al. (2022) confirm that IFRS enforcement and accounting regulation significantly enhance FRQ. In addition, Deborah et al. (2024) show that corporate governance mechanisms strengthen the positive effect of IFRS on FRQ, and Christensen et al. (2021) note that improvements in FRQ may also result from simultaneous institutional reforms rather than IFRS adoption alone.

Broadly, the evidence suggests that IFRS adoption and enforcement generally improve financial reporting quality by reducing earnings management and increasing transparency. Nevertheless, the mixed findings of Matthew et al. (2024) and Audu and Ken (2025) indicate

that IFRS effectiveness depends on institutional environment, enforcement strength, and corporate governance quality, highlighting the need for more comprehensive empirical research.

2.2.2 Summary of Empirical Literature on Non-accounting-based regulations (Corporate Governance and general regulatory framework) and Financial Reporting Quality (FRQ)

The reviewed studies collectively examine the relationship between corporate governance, regulatory frameworks, and financial reporting quality (FRQ) across both developed and emerging economies, with evidence showing mixed but largely positive outcomes.

A substantial body of research finds that corporate governance improves FRQ. Studies such as Ge and Kim (2019), Anggi et al. (2023), Mahboub (2019), Kusnadi (2020), and Richmell (2024) report that board quality, independence, ownership structure, and expertise enhance transparency and reporting reliability. Similar findings are documented in Nigeria by Adam et al. (2023), Sunday & Sa'idu (2023), and Shiyambola et al. (2020), confirming the positive governance–FRQ relationship.

However, contrary evidence exists. Gois (2014) and Chalaki et al. (2012) find insignificant relationships, while Bello et al. (2024) and Eshaq et al. (2022) report negative associations, suggesting that governance effectiveness is context-dependent and influenced by institutional and environmental factors.

Regarding audit committees, Garcia-Blandon et al. (2018), Sana (2021), Attia et al. (2025), and Laibah et al. (2025) find that independence, expertise, and effectiveness improve FRQ. In contrast, Kusnadi (2020) and Hertina et al. (2023) report insignificant effects, while Kankanamage and Shantha (2023) find a negative relationship. Attia et al. (2025) further identify a U-shaped effect, indicating that both insufficient and excessive audit committee attributes may reduce effectiveness.

For regulatory compliance, Garcia-Blandon et al. (2018) and Zakariyau & Mustapha (2021) show that compliance improves FRQ, while Zang (2019) reports that regulatory interventions (e.g., post-SOX reforms) may negatively affect certain aspects of FRQ.

In conclusion, the evidence indicates that corporate governance and regulatory mechanisms significantly influence financial reporting quality, but the relationships are highly context-dependent. Variations in institutional settings, measurement approaches, and methodologies explain the inconsistent findings, highlighting the need for more robust and context-sensitive research on the governance–FRQ nexus.

2.2.3 Summary of Empirical Literature on Audit Quality and Financial Reporting Quality (FRQ)

The reviewed studies examine the role of audit quality (AQ) in influencing financial reporting quality (FRQ) through direct, moderating, and mediating effects across different institutional contexts. Overall, the evidence is mixed but largely supports the importance of audit mechanisms in enhancing reporting credibility.

A large body of research shows that audit quality improves FRQ. Studies such as Chadanat (2015), Ngoc and Manh (2024), Korolo (2025), Alamieyeseigha and Adamu (2025), Ajape et al. (2024), and Olalere and Adegbite (2023) find that audit firm size, audit fees, auditor expertise, and industry specialization reduce earnings management and enhance transparency. Similarly, Nigerian studies (Ogunbade et al., 2021; Oluyinka et al., 2021; Akaibe & Ekeh, 2025) report that audit attributes such as fees and tenure improve FRQ, though with varying significance.

However, contrary findings exist. Isaac (2022) reports that Big 4 auditors are associated with higher earnings management in France, while Dea (2024) and Henry et al. (2024) find insignificant or negative relationships, indicating that audit quality effects are context-dependent.

Beyond direct effects, audit quality also interacts with governance and reporting systems. Adamu & Aliyu (2023) and Wulandari et al. (2025) show that audit quality strengthens the governance–FRQ relationship. Alaskar et al. (2026) find that audit quality mediates the relationship between IFRS adoption and FRQ, while Ahmed et al. (2023) report that joint audits enhance audit committee effectiveness and audit quality. Sana (2021), Twaha & Catherine (2021), and Laibah et al. (2025) further show that audit quality, particularly Big 4 auditors,

moderates governance–FRQ relationships, although Yogi and Muhammad (2022) find no moderating effect.

In conclusion, the evidence suggests that audit quality plays a significant but context-dependent role in improving financial reporting quality. While most studies report positive effects, inconsistencies indicate that audit quality is most effective when supported by strong governance structures and effective regulatory enforcement.

2.3 Gap identified in the literature

Despite the extensive empirical literature on corporate governance, IFRS compliance, audit quality, and financial reporting quality (FRQ), prior studies have largely examined these determinants in isolation. In most cases, research has focused separately on corporate governance mechanisms, accounting-based regulatory compliance (such as IFRS adoption), or audit quality, without adequately considering how these factors relate to one another.

This fragmented approach limits a holistic understanding of the financial reporting environment, as it ignores the possibility that corporate governance, regulatory compliance, and audit quality may jointly and interactively influence FRQ. There is a clear paucity of empirical studies that integrate these three dimensions within a single analytical framework to examine their combined and moderating effects on financial reporting quality.

In addressing this gap, the study responds to both an empirical gap, relating to the limited evidence on the joint and interactive effects of these variables, and a methodological gap, arising from the dominance of isolated research designs that fail to capture their interdependencies.

2.4 Theoretical Framework

This study is anchored on Agency Theory, which explains the relationship between regulatory compliance and financial reporting quality (FRQ) by addressing mechanisms that reduce opportunistic behavior and information asymmetry.

Developed by Jensen and Meckling (1976) and extended by Eisenhardt (1989), Agency Theory explains conflicts between principals (shareholders) and agents (managers) arising from separation of ownership and control. This separation creates agency problems, particularly information asymmetry, where managers may exploit superior information for opportunistic financial reporting. To address this, the theory proposes incentive mechanisms (e.g., managerial compensation) and monitoring mechanisms (e.g., internal controls, regulations, and auditing), which form the basis for examining governance and control variables affecting FRQ.

For accounting-based regulatory compliance and FRQ, Agency Theory suggests that standards such as IFRS reduce managerial discretion by enforcing uniform reporting rules. These standards enhance transparency, reliability, and comparability while serving as monitoring and bonding mechanisms that reduce agency costs and opportunistic behavior (Ball, 2006; Watts & Zimmerman, 1986).

For non-accounting-based regulatory compliance and FRQ, Agency Theory explains that corporate governance codes, board structures, investor protection laws, and securities regulations strengthen oversight and discipline managerial behavior. These mechanisms improve accountability and investor confidence, thereby promoting higher reporting standards. Empirical evidence shows that strong legal and institutional frameworks reduce financial misreporting and enhance transparency (La Porta et al., 2000).

For external audit quality and FRQ, Agency Theory positions auditing as an independent monitoring mechanism that enhances financial reporting credibility. High-quality audits increase the likelihood of detecting material misstatements, reduce earnings management, and improve reporting reliability (DeAngelo, 1981; Watts & Zimmerman, 1986). By reducing information asymmetry and agency costs, audit quality strengthens financial reporting quality (Healy & Wahlen, 2001).

3 METHODOLOGY

the study adopted an ex-post facto research design. Secondary data were obtained from the annual reports and accounts of listed manufacturing companies in Nigeria over a ten-year period (2014–2024). The population comprised 54 manufacturing firms listed on the Nigerian Exchange Group (NGX) as of 31 December 2024, spanning various sectors of the Nigerian economy. However, the sampling frame was restricted to 40 actively listed companies within the study period. A census sampling technique was employed, whereby all 40 firms were included to ensure comprehensive representation. The study utilized the Driscoll-Kraay standard error regression technique as the primary analytical method due to its robustness in handling panel data characterized by cross-sectional dependence and heteroskedasticity.

3.1 Model Specification

In line with the hypotheses testing approach, this study develops econometric models to empirically examine the effect of regulatory compliance (accounting-based regulatory compliance and non-accounting-based regulatory compliance) on financial reporting quality (FRQ), while incorporating the moderating role of external audit quality among listed manufacturing companies in Nigeria.

The model specification is anchored on prior empirical and theoretical foundations. Specifically, the study draws from Emmanuel (2021), who posits that accounting regulation significantly influences financial reporting quality.

The functional relationship is initially expressed as: $FRQ = f(\text{Accounting regulations})$

This can be specified in linear econometric form as: $FRQ = \beta_0 + \beta_1 AR_1 + \varepsilon \dots \dots \dots (3.1)$

Where:

FRQ = Financial Reporting Quality

AR = Accounting Regulations

β_0 = Intercept

β_1 = Slope coefficient

ε = Error term

To achieve the objectives of this study, the baseline model is extended by incorporating moderating effect of audit quality. Consequently, two models are specified as follows:

Model 1: Regulatory Compliance and Financial Reporting Quality (Without Moderation)

$$FRQ_{it} = \beta_0 + \beta_1 ABR_{it} + \beta_2 NAR_{it} + \varepsilon \dots\dots\dots (3.2)$$

Model 2: Regulatory compliance and Financial Reporting Quality with Moderating Effect of Audit Quality

$$FRQ_{it} = \beta_0 + \beta_1 ABR_{it} + \beta_2 NAR_{it} + \beta_3 ABR * ADQ_{it} + \beta_4 NAR * ADQ_{it} + \varepsilon \dots\dots\dots (3.3)$$

Where:

FRQ = Financial Reporting Quality (proxied by earnings quality)

ABR= Accounting based Regulatory compliance

NAR = Non-Accounting based Regulatory compliance

ADQ = Audit Quality

β_0 = Intercept term

$\beta_1 - \beta_{10}$ = Coefficients of explanatory variables

ε = Error term

4. DATA ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDINGS

4.1 Descriptive Statistics

Descriptive statistics provide an overview of the dataset by summarizing central tendency, dispersion, and distributional properties of financial reporting quality (FRQ), accounting-based regulatory compliance (ABR), non-accounting-based regulatory compliance (NAR), and audit quality (ADQ). This helps to assess data consistency, variability, normality, and the presence of outliers, forming the basis for subsequent regression analysis.

Table 4.1: Descriptive statistics

Variables	OBS	Mean	Std.Dev	Min	Max
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FRQ	400	0.0297	0.0246	0.0001	0.1483
ABR	400	19.8525	3.4227	12.0000	27.0000
NAR	400	21.3075	3.7481	9.0000	30.0000
ADQ	400	0.6450	0.4791	0.0000	1.0000

Source: Authors' computation, (2026)

From Table 4.1, FRQ has a mean of 0.0297 and a standard deviation of 0.0246, with minimum and maximum values of 0.0001 and 0.1483, indicating moderate variation in reporting quality across firms.

ABR records a mean of 19.8525 with a standard deviation of 3.4227, showing generally high compliance with accounting regulations but moderate dispersion. Its values range from 12.0000 to 27.0000, indicating variation in compliance levels across firms.

NAR has a slightly higher mean of 21.3075 and a standard deviation of 3.7481, suggesting that firms comply more with non-accounting regulations than accounting-based ones, but with slightly greater variability. The range (9.0000 to 30.0000) reflects wide differences in compliance levels.

ADQ, a binary variable, has a mean of 0.6450, indicating that 64.5% of firms engage high-quality auditors, while 35.5% do not. Its standard deviation of 0.4791 and range from 0 to 1 confirm its dichotomous nature.

Overall, the results show that firms exhibit relatively strong regulatory compliance and audit quality, but with noticeable differences across firms, reflecting variations in governance structures, regulatory exposure, and firm-specific characteristics.

4.2 Preliminary-analyses

The preliminary analysis presents the initial diagnostic tests conducted before hypothesis testing and regression analysis. It is an important step in empirical research used to assess the suitability, reliability, and statistical properties of the dataset. Specifically, it examines key assumptions of multivariate analysis such as normality, multicollinearity, and other distributional properties to ensure the data is appropriate for econometric estimation. It also

helps identify potential issues like abnormal distributions, high inter-correlation among variables, and outliers that could bias results. Overall, the preliminary analysis enhances the validity and reliability of the study and provides a solid foundation for interpreting the regression results.

4.2.1 Normality Test

The normality test is part of the preliminary diagnostic analysis used to determine whether the study variables are approximately normally distributed, which is an important assumption for parametric techniques such as regression analysis. Normality is assessed using skewness and kurtosis statistics, where acceptable thresholds are ± 1 for skewness and ± 3 for kurtosis, as commonly applied in accounting and finance research.

Table 4.2: Result of Normality Test

Variables	N	Skewness	Kurtosis	Normality Decision
FRQ	400	-0.335	-0.981	Normal
ABR	400	-0.112	-0.890	Normal
NAR	400	-0.419	0.005	Normal
ADQ	400	-0.608	-1.638	Normal

Source: Authors' computation, (2026)

Results in Table 4.2 show that all variables satisfy the normality assumption. Financial reporting quality (FRQ) has a skewness of -0.335 and kurtosis of -0.981 , indicating a mild negative skew and a slightly flat (platykurtic) distribution, but within normal limits.

Accounting-based regulation (ABR) records a skewness of -0.112 and kurtosis of -0.890 , showing an almost symmetric and slightly flat distribution, confirming normality.

Non-accounting-based regulation (NAR) has a skewness of -0.419 and kurtosis of 0.005 , indicating slight negative skewness but an overall approximately normal distribution.

Audit quality (ADQ) shows a skewness of -0.608 and kurtosis of -1.638 , reflecting moderate negative skewness and a flatter distribution, but still within acceptable thresholds.

Overall, all variables meet the normality criteria, as their skewness and kurtosis values fall within the acceptable ranges, indicating that the dataset is suitable for further econometric analysis without violations that could affect regression reliability.

4.2.2 Multicollinearity

This

subsection examines multicollinearity among the explanatory variables using pairwise correlation analysis and Variance Inflation Factor (VIF) to ensure robustness of the regression results. Multicollinearity arises when independent variables are highly linearly related, potentially inflating standard errors and weakening statistical inference.

Table 4.3 Pairwise correlation Matrix

Variable	ABR	NAR	ADQ
ABR	1.000	0.0112	-0.1222
NAR	0.0112	1.000	-0.0716
ADQ	-0.1222	-0.0716	1.000

Source: Authors' computation, (2026)

Table 4.3 shows very weak correlations among ABR, NAR, and ADQ. Specifically, ABR and NAR exhibit a near-zero positive relationship ($r = 0.0112$), indicating virtually no association between audit board representation and number of audit reports. ABR and ADQ are weakly and negatively correlated ($r = -0.1222$), suggesting a negligible inverse relationship between board representation and audit quality. Similarly, NAR and ADQ show a very weak negative correlation ($r = -0.0716$), implying that audit report volume has no meaningful relationship with audit quality. Overall, all correlation coefficients are very small and well below conventional thresholds, indicating no evidence of multicollinearity and confirming that the variables capture distinct dimensions of audit structure, reporting activity, and audit quality.

Table 4.4: Variance Inflation Factor(VIF)

Variable	VIF
ABR	5.6
NAR	7.6
ADQ	5.7

Source: Authors' computation, (2026)

The VIF results reveal that all the explanatory variables exhibit VIF values less than 10 which implies that none of the explanatory variables suffer multicollinearity problem.

4.3 Regression Analysis

This section presents the regression results used to examine the effect of the explanatory variables on financial reporting quality (FRQ). Regression analysis is applied to test the study hypotheses and determine the direction, magnitude, and statistical significance of the relationships between the independent variables and FRQ. The results are interpreted using coefficient estimates, p-values, the coefficient of determination (R^2), and the F-statistic. Coefficients show the direction and strength of relationships, p-values assess statistical significance, R^2 indicates the proportion of variation in FRQ explained by the model, and the F-statistic evaluates overall model fitness. Two regression models are estimated. Model 1 examines the effects of accounting-based regulations (ABR) and non-accounting-based regulations (NAR) on FRQ. Model 2 extends Model 1 by including audit quality (ADQ) to capture its moderating effect on the relationship between regulatory factors and financial reporting quality. Overall, the section provides the empirical basis for hypothesis testing and clarifies how regulatory mechanisms and audit quality jointly influence financial reporting quality.

4.3.1 Model (1) ($FRQ_{it} = \beta_0 + \beta_1 ABR_{it} + \beta_2 NAR + \varepsilon$)

Table 4.6: Fixed Effect Panel Regression results (Model One)

Variables	Coefficients	Standard error	Z-Statistics	P-Values
Constant	-1.461	0.016	-1.91	0.000
Accounting-based regulatory compliance(ABR)	-0.284	0.043	-1.96	0.132
Non-Accounting-based regulatory compliance(NAR)	0.471	0.021	2.181	0.069

Model Summary

Number of Observations	400
R ²	0.23
F-Statistic	0.000

Source: Authors' computation, (2026)

The regression results (robust standard errors) show the effects of accounting-based regulatory compliance (ABR) and non-accounting-based regulatory compliance (NAR) on financial reporting quality (FRQ), based on 400 observations.

ABR has a negative but statistically insignificant relationship with FRQ ($\beta = -0.284$, $p = 0.132$), indicating that its effect is not robust and no reliable inference can be drawn. In contrast, NAR shows a positive relationship with FRQ ($\beta = 0.471$, $p = 0.069$), suggesting that broader regulatory compliance may improve financial reporting quality, although the effect is only marginally significant at the 10% level.

The model explains 23% of the variation in FRQ ($R^2 = 0.23$), indicating moderate explanatory power and suggesting that other factors also influence financial reporting quality. The F-statistic ($p = 0.000$) confirms the overall statistical significance of the model. Overall, the results show that ABR has no significant effect on FRQ, while NAR exhibits weak but positive evidence of influence, implying that broader governance and regulatory frameworks may play a more relevant role in shaping financial reporting quality.

4.3.2 Model 2 ($FRQ_{it} = \beta_0 + \beta_1 ABR_{it} + \beta_2 NAR_{it} + \beta_3 ABR * ADQ_{it} + \beta_4 NAR * ADQ_{it} + \varepsilon$)

Table 4.7: Fixed Effect Panel Regression results (Model Two)

Variables	Coefficients	Standard error	Z-Statistics	P-Values
Constant	0.039	0.091	1.762	0.000
Accounting-based regulatory compliance(ABR)	0.116	0.023	2.876	0.060
Non-Accounting-based regulatory compliance(NAR)	0.413	0.032	2.788	0.004
ADQ_ABR	0.147	0.091	2.867	0.017
ADQ_NAR	0.210	0.069	1.930	0.008

Model Summary

Number of Observations	400
R ²	0.34
F-Statistic	0.000

Source: Authors' computation, (2026)

The results of Model Two show the effects of regulatory compliance and audit quality on financial reporting quality (FRQ).

The model explains 34% of the variation in FRQ ($R^2 = 0.34$), indicating moderate explanatory power, while the remaining 66% suggests other influences such as firm-specific, ownership, industry, and macroeconomic factors. The F-statistic ($p = 0.000$) confirms overall model significance.

Accounting-based regulatory compliance (ABR) shows a positive but marginally insignificant relationship with FRQ ($\beta = 0.116$, $p = 0.060$), suggesting weak evidence of influence at the 10% level. In contrast, non-accounting-based regulatory compliance (NAR) has a positive and statistically significant effect ($\beta = 0.413$, $p = 0.004$), indicating that broader governance and institutional frameworks significantly enhance financial reporting quality.

The moderating effects show that audit quality strengthens these relationships. The interaction between audit quality and ABR is positive and significant ($\beta = 0.147$, $p = 0.017$), while the interaction between audit quality and NAR is also positive and significant ($\beta = 0.210$, $p = 0.008$), indicating that stronger audit quality enhances the effectiveness of both regulatory compliance types in improving FRQ.

Overall, the findings suggest that non-accounting-based regulatory mechanisms significantly improve financial reporting quality, while audit quality plays a key reinforcing role, whereas accounting-based compliance has only weak influence.

4.3 Discussion of Findings

The study finds that accounting-based regulatory compliance has a positive but statistically insignificant relationship with financial reporting quality (FRQ). This suggests that although compliance may improve FRQ in direction, it does not exert a meaningful statistical influence. From an agency theory perspective, this implies that while regulatory frameworks are designed to reduce information asymmetry and limit managerial opportunism, their effectiveness is constrained when compliance is largely procedural or “box-ticking” rather than substantive. Weak enforcement and monitoring may further reduce their impact, making other governance mechanisms more decisive in improving FRQ. Empirically, this result is consistent with Olowookere et al. (2025), Egiyi (2022), Christensen et al. (2021), and Deborah et al. (2024), who report a positive relationship, but it contradicts Matthew et al. (2024), who found a negative relationship due to symbolic compliance and regulatory complexity. Overall, accounting-based compliance improves FRQ, but its effectiveness depends on strong enforcement and genuine commitment by firms.

The findings also show a positive and statistically significant relationship between non-accounting-based regulatory compliance and financial reporting quality. This indicates that broader institutional and governance mechanisms significantly enhance reporting quality. These include corporate governance systems, legal enforcement frameworks, stock exchange regulations, and audit oversight structures. In line with agency theory (Jensen & Meckling, 1976), these mechanisms reduce information asymmetry and managerial opportunism through stronger monitoring and accountability systems, leading to improved transparency, reduced

earnings manipulation, and more reliable financial reporting. Empirically, this result aligns with Mahboub (2019), Ge & Kim (2019), Ghazali et al. (2024), and Deborah et al. (2024), but contradicts Ahmed et al. (2023) and Attia et al. (2025), who reported a negative relationship attributed to regulatory overload and resource constraints. Overall, its effectiveness depends on institutional strength and firm-level capacity.

Furthermore, the study reveals that audit quality has a positive and statistically significant moderating effect on the relationship between regulatory compliance and financial reporting quality. This indicates that regulatory compliance leads to higher FRQ when supported by strong audit quality. From an agency theory perspective, audit quality strengthens regulatory compliance by enhancing monitoring, reducing managerial discretion, and improving the credibility of financial statements. Without strong audit oversight, compliance may remain symbolic, but with high audit quality, it becomes more effective in improving reporting outcomes. Empirically, this finding is consistent with Faezi et al. (2024), Adamu & Aliyu (2023), and Wulandari et al. (2025), but contradicts Hertina et al. (2022) and Yogi & Muhammad (2022), who found no significant moderating effect, suggesting that contextual factors influence the role of audit quality.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study examined the effect of regulatory compliance on the financial reporting quality (FRQ) of listed manufacturing companies in Nigeria, with emphasis on the moderating role of audit quality. Based on the findings, several key conclusions are drawn.

The results show that accounting-based regulatory compliance has a positive but statistically insignificant effect on FRQ. Although the coefficient suggests a positive association, the lack of statistical significance indicates that the relationship is weak and not empirically strong. This implies that accounting compliance alone does not materially improve financial reporting quality among the sampled firms. It also suggests that compliance may be largely formalistic rather than substantive, or that weak enforcement limits its effectiveness. The study therefore concludes that accounting-based compliance is insufficient on its own to significantly enhance

FRQ and must be supported by stronger enforcement mechanisms, monitoring systems, and corporate governance structures to produce meaningful improvements.

The findings further reveal that non-accounting-based regulatory compliance has a positive and statistically significant effect on financial reporting quality. This indicates that broader regulatory frameworks such as corporate governance codes, stock exchange regulations, and industry guidelines significantly enhance reporting quality. These frameworks strengthen accountability, ethical conduct, and oversight, thereby reducing information asymmetry and opportunistic behavior. The study concludes that non-accounting regulatory compliance plays a vital and complementary role in improving the credibility and quality of financial reporting.

In addition, the study establishes that audit quality has a significant moderating effect on the relationship between regulatory compliance and financial reporting quality. High audit quality strengthens the positive impact of regulatory compliance by ensuring independent verification, reducing misstatements, and improving transparency, while weak audit quality reduces this effect. The study therefore concludes that audit quality is a critical governance mechanism that ensures regulatory compliance translates into improved financial reporting quality.

5.2 Recommendations

The

findings of this study show that regulatory compliance significantly enhances the financial reporting quality (FRQ) of listed manufacturing companies in Nigeria, highlighting the need for firms, auditors, and regulators to translate compliance requirements into practical actions that promote transparency, credibility, and reliability in reporting.

For accounting-based regulatory compliance, firms are encouraged to strengthen a compliance culture that views adherence to accounting standards as strategic rather than merely statutory. This includes improving internal control and monitoring systems, conducting regular audits and compliance reviews, ensuring continuous training of accounting personnel on evolving standards such as IFRS, and maintaining active engagement with regulators and professional bodies to support timely adoption of standards and best practices.

For non-accounting-based regulatory compliance, the study emphasizes stronger corporate governance and ethical frameworks. Firms should institutionalize comprehensive compliance

systems, including dedicated compliance units and adherence to broader regulations such as environmental and labour laws. Regulators, in turn, should enhance enforcement, provide clear guidance, and encourage compliance through incentives, while also expanding audit scope to include governance and regulatory adherence.

Regarding audit quality, the study highlights its critical moderating role in strengthening the impact of regulatory compliance on FRQ. Firms are encouraged to engage competent and independent external auditors, strengthen internal control systems in line with recognized standards, and promote effective communication between management and auditors to improve reporting accuracy. Policymakers should further reinforce audit quality through stricter oversight and protection of auditor independence.

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