



UNETHICAL ACCOUNTING PRACTICES AND FINANCIAL REPORTING QUALITY OF LISTED INSURANCE COMPANIES IN NIGERIA

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Abstract

This study investigates the effect of unethical accounting practices on the financial reporting quality of listed insurance companies in Nigeria over the period 2015 to 2024. The specific objectives are to evaluate the effect of related party transactions, tax evasion, and non-compliance with financial reporting standards on the financial reporting quality of the firms. The study adopts an ex-post facto research design, which is suitable for analyzing past events without manipulating the variables involved. The entire population of 23 listed insurance companies in Nigeria was used as the sample for the study, applying a census approach. Secondary data were collected and analyzed using panel data regression techniques after conducting relevant diagnostic and specification tests. The findings reveal that related party transactions, tax evasion, and non-compliance with financial reporting standards each have a significant adverse effect on financial reporting quality. Based on the findings, the study recommends that insurance companies should establish robust internal control systems to monitor and transparently disclose related party transactions, strengthen compliance with tax regulations through training and sanctions, and ensure adherence to financial reporting standards by engaging qualified accounting professionals and maintaining continuous professional development programs.

Keywords: Unethical Accounting Practices, Financial Reporting Quality, Related Party Transactions, Tax Evasion, and Non-Compliance with Financial Reporting Standards

1.0 Introduction

Financial reporting quality plays a central role in promoting transparency, accountability, and investor confidence within the capital market. High-quality financial reports enable stakeholders to make informed decisions, foster trust in corporate entities, and ensure the stability of the financial system (Okafor & Ezejiofor, 2022). However, in many emerging economies, including Nigeria, unethical accounting practices continue to undermine the credibility of financial statements. These practices distort the true financial position of firms and erode the confidence of investors, regulators, and the general public in corporate reports (Oladipupo & Obazee, 2021). For listed insurance companies, where trust and risk management form the bedrock of operations, the integrity of financial reports is even more critical.

Unethical accounting practices manifest in various forms such as related party transactions, tax evasion, and non-compliance with financial reporting standards. Related party transactions, when



not transparently disclosed, create avenues for earnings manipulation and misrepresentation of financial position (Almajali, 2020). Similarly, tax evasion not only reduces government revenue but also involves deliberate misstatement of financial figures, thereby impairing financial reporting quality (Olaoye & Akinyemi, 2023). Non-compliance with financial reporting standards further worsens the problem by creating inconsistencies in reporting, making it difficult for stakeholders to compare and rely on financial statements (Ezeani & Obi, 2021).

Globally, studies have highlighted the damaging effect of unethical accounting practices on corporate survival and stakeholder trust (Khan & Muttakin, 2022). In Africa, particularly Nigeria, several financial scandals involving insurance companies including International Energy Insurance Plc, Investment and Allied Insurance Plc, Goldlink Insurance Plc, and African Alliance Insurance Plc, have faced regulatory interventions between 2009 and 2019 over financial misreporting, weak controls, and non-compliance, which undermined financial reporting quality and stakeholder confidence (Uwuigbe et al., 2020). Regulatory agencies such as the Financial Reporting Council of Nigeria (FRCN), the National Insurance Commission (NAICOM), and the Securities and Exchange Commission (SEC) have continuously emphasized compliance with International Financial Reporting Standards (IFRS) and ethical practices, yet instances of financial misrepresentation persist (Adebayo, 2021). This has led to growing skepticism about the reliability of financial statements in the Nigerian insurance sector.

Given the importance of insurance companies in mobilizing savings, providing risk coverage, and stabilizing the financial system, it becomes imperative to critically examine how unethical accounting practices influence the quality of their financial reporting. By evaluating the effects of related party transactions, tax evasion, and non-compliance with reporting standards, this study seeks to provide insights that will not only enrich the academic literature but also guide regulators, policymakers, and practitioners towards ensuring transparency and integrity in financial reporting within the Nigerian insurance sector.

The credibility of financial reporting in Nigeria has been increasingly questioned due to recurring cases of unethical accounting practices across corporate entities. For insurance companies, which depend heavily on public confidence to thrive, this issue is particularly problematic. Despite the adoption of IFRS and the presence of regulatory bodies such as NAICOM and FRCN, incidents of misstated earnings, concealed related party dealings, and deliberate tax manipulations continue to surface (Owolabi & Ajibade, 2022). These malpractices not only weaken the quality of financial reports but also distort the true financial health of firms, exposing investors and policyholders to unanticipated risks.

Related party transactions, when not adequately disclosed, often serve as a tool for earnings management and resource diversion, reducing financial transparency (Ogbu & Nweze, 2021). Tax evasion further compounds the problem by encouraging falsification of financial data, thereby reducing the reliability of reported figures (Olaoye & Akinyemi, 2023). Similarly, non-compliance



with established financial reporting standards leads to inconsistencies, misclassifications, and incomplete disclosures that undermine the comparability and integrity of financial statements (Ezeani & Obi, 2021).

These persistent unethical practices have resulted in loss of investor confidence, reduced foreign investment inflows, weakened regulatory effectiveness, and in some cases, the collapse of financial institutions (Uwuigbe et al., 2020). For the Nigerian insurance sector, the stakes are even higher given its role in risk management and economic stability. The inability to produce high-quality financial reports has limited the sector's contribution to the broader financial market and raised doubts about its accountability and governance structures.

The problem, therefore, lies in the continued prevalence of unethical accounting practices that compromise the quality of financial reporting among listed insurance companies in Nigeria. While prior studies have examined aspects of financial reporting and corporate governance, there remains insufficient empirical evidence on how specific unethical practices such as related party transactions, tax evasion, and non-compliance with reporting standards affect financial reporting quality in the insurance sector. Addressing this gap is crucial to restoring transparency, protecting investors, and strengthening the financial system in Nigeria.

2.0 Literature Review

2.1 Financial Reporting Quality

Financial Reporting Quality (FRQ) refers to the degree to which financial information provided by a company in its financial statements is accurate, reliable, and useful for decision-making by various stakeholders, including investors, regulators, and management. High-quality financial reporting enables stakeholders to make informed decisions by presenting a true and fair view of the company's financial performance and position. Dechow, et al. (2010) defined financial reporting quality as the extent to which financial statements provide an accurate and fair representation of a company's financial performance and position, free from material misstatements and errors. High-quality reporting should reflect the economic reality of transactions. Verdi (2006) describes financial reporting quality as the ability of financial statements to convey information that is useful to investors in predicting future cash flows, assessing the company's financial health, and making economic decisions. Francis, et al. (2004) state that financial reporting quality is achieved when financial reports exhibit relevance, reliability, and timeliness. High-quality reporting reduces information asymmetry between managers and stakeholders and enhances market efficiency. Barth, et al. (2008) defined financial reporting quality as the extent to which financial reports reflect the company's underlying economic activities in a transparent, accurate, and timely manner, thereby improving decision-making by investors.



2.1.2 Unethical Accounting Practice

Achim (2019) defines unethical accounting practice as the manipulation of accounting information, with an emphasis on intentional omissions or false representation of financial data. This behavior is often intended to create a deceptive view of the organization's financial health for personal or corporate gain. Jones (2020) describes unethical accounting as deliberate actions to falsify financial records, misrepresent financial performance, and engage in fraudulent financial reporting. This practice is often aimed at misleading stakeholders, including investors, regulators, and creditors, about the true financial position of a company.

McPhail and Walters (2019) define unethical accounting as any action that involves the manipulation or distortion of financial information to mislead users of financial statements. This includes aggressive accounting techniques, such as recognizing revenue prematurely, concealing debts, or overstating assets. Schipper (2020) views unethical accounting as practices where accountants intentionally breach ethical and legal standards in order to meet internal or external expectations. This often involves the violation of Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS).

Brennan and Solomon (2020) discuss unethical accounting in terms of accounting fraud, where there is a deliberate falsification of financial statements or records to conceal the true financial position of a business. This often includes creating fake entries, inflating income, or hiding expenses to mislead stakeholders. Rezaee and Riley (2021) describe unethical accounting practices as violations of professional ethics, laws, and accounting standards. This includes both overt actions such as financial fraud and subtle forms of misconduct such as not disclosing material information. The authors emphasize that such practices result in the loss of stakeholder trust and damage to the organization's reputation.

2.1.2.1 Related Party Transactions

A related party transaction (RPT) is any financial deal, arrangement, or transfer of resources between two parties that are linked through a pre-existing relationship, such as familial ties, ownership, or control. These transactions are subject to scrutiny because they may not be conducted on an arm's length basis, potentially leading to conflicts of interest or unfair advantages. Gordon, et al. (2004) defined related party transactions as financial exchanges between a company and parties that are closely connected through direct or indirect control. These include significant shareholders, directors, or family members who have influence over decision-making processes, leading to possible conflicts of interest.

Ryngaert and Thomas (2012) describe RPTs as transactions that deviate from the market norms due to the relationship between the parties involved. They argue that while not all RPTs are harmful, the potential for abuse, such as transferring wealth from shareholders to insiders, remains a critical concern. Cheung, et al. (2006) explain that related party transactions may involve sales, loans, or asset transfers between a firm and its executives, subsidiaries, or affiliates. Such



transactions are typically subject to enhanced regulatory oversight to ensure that they are transparent and conducted fairly.

Related party transactions in the category of efficient related party transactions are more profitable for shareholders because they can improve the efficiency of the company in general. This is due to the fact that the transaction is considered economically rational with low transaction costs borne by the company. In addition, the transaction is carried out between parties in the same control so that the contractual costs can be lowered and the negotiation process can be carried out faster than non-related party transactions. Related party transactions can be measured by the amount of related party transactions disclosed in a company's financial statements (Suryani, et al., 2019). Related party sales might be an important part in a firm's normal business and contribute as importantly to the firm's performance and return as do non-related party sales. However, if related party sales are misused by the controlling owner for opportunistic earnings management purposes, the credibility and durability of these sales numbers are lower than that of non-related party sales, which are more difficult to manipulate (Bava & di Trana, 2015). According to Wong and Jian (2003) there are several forms of related party transactions, such as the sale or purchase of a product or material, borrowing or lending of capital, interest, commissions on purchases and sales, as well as the purchase or sale of fixed assets. Another form of the transaction is the sale of the related fixed asset account which is usually reported as non-operating (non-operating items).

2.1.2.2 Tax Evasion

Tax evasion refers to the illegal practices by individuals or companies to avoid paying taxes that are lawfully due. It typically involves deliberate actions to misrepresent or conceal income, profits, or financial information to reduce tax liability. Alm (2012) describes tax evasion as the illegal actions taken by taxpayers to avoid paying the correct amount of tax due. This involves intentional efforts such as not reporting certain incomes, making false claims on deductions, or concealing assets. James and Nobes (2019) state that tax evasion involves illegal actions that reduce tax liability, contrasting it with tax avoidance, which, while reducing tax liability, remains within the bounds of the law. Tax evasion often includes activities like falsifying income reports, inflating expenses, and using unreported offshore accounts. Christensen (2015) refers to tax evasion as the act of deliberately avoiding taxes through illegal means, often by failing to declare income, underreporting taxable profits, or inflating deductions. Christensen highlights that tax evasion undermines the tax system's integrity and fairness.

Braithwaite (2009) defines tax evasion as any intentional act by individuals or corporations to evade their tax obligations. He highlights the distinction between illegal tax evasion and legal tax avoidance, the latter of which uses loopholes within tax laws. Murphy (2013) explains tax evasion as a criminal offense where individuals or corporations engage in activities designed to avoid paying taxes. This can involve using false documentation, underreporting revenue, or engaging in cash transactions that are not recorded. Palil (2010) views tax evasion as a global phenomenon in



which taxpayers intentionally avoid paying taxes by illegal means. He emphasizes the detrimental effects on governments, leading to revenue loss and reduced ability to fund public services.

2.1.1.3 Non-compliance with Financial Reporting Standards

International Financial Reporting Standards (IFRS) are a set of accounting standards issued by the International Accounting Standards Board (IASB) which was established to achieve the objective of developing a single set of high quality globally accepted accounting standards based upon clearly articulated principles. IFRS provide understandable, reliable, relevant and comparable accounting rules which can be implemented across international boundaries. IFRS are principle-based accounting standards which are set to achieve the objective of harmonization of all the accounting standards of different countries in order to enhance comparability and improve quality of accounting information in general. They are consequence of growing multi-national companies and are progressively replacing the many different national accounting standards. Following the globalization of international financial markets, the position of presenting a common language for financial reporting to develop international comparability has become widespread. One of the essential characteristics that financial information must possess is comparability (IASB, 2008).

According to Alistair (2010), IFRS is a series of accounting pronouncements published by the International Accounting Standard Board (IASB) to help prepare financial statements throughout the world, to provide and present high quality, transparent and comparable financial information. However, Fazoranti, et al. (2014), sees IFRS as a combination of the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs), Standing Interpretations Committee (SICs) pronouncements; and International Financial Reporting Interpretations Committee (IFRICs) guidelines. The IFRS are therefore robust principle-based set of global accounting standards with detailed disclosure requirements that will be useful to a wide range of users for making economic decisions. IFRS conversion has not been viewed simply as an accounting exercise, but as a change in national GAAP (generally accepted accounting principles) and in whole basis of financial reporting. IFRS information has affected the perception of firm's business performance, and firms have been enabled to produce IFRS financial statements that allow them to adopt a global financial reporting language as well as to be evaluated in a global marketplace (PricewaterhouseCoopers, 2004).

Non-compliance with Financial Reporting Standards (FRS) refers to the failure of organizations or entities to adhere to the established guidelines and principles for financial reporting set forth by relevant regulatory bodies. This non-compliance can arise from various reasons, including lack of knowledge, intentional misrepresentation, or inadequate internal controls. Bebbington and Unerman (2018) defined non-compliance with financial reporting standards as the intentional or unintentional failure to apply the recognized accounting principles and standards in the preparation of financial statements, leading to potential misinformation for stakeholders.



Emanuela and Paola (2019) state that non-compliance with FRS occurs when an entity does not follow the guidelines outlined in accounting standards, which can result in inaccurate financial reporting and loss of credibility with investors and regulators. Zeff (2013) describes non-compliance with financial reporting standards as a breach of the ethical obligation to provide transparent and accurate financial information, which undermines the integrity of the financial reporting process and can lead to legal consequences.

2.3 Empirical Review

A study by Bhuiyan, et al. (2021) focused on the impact of related party transactions (RPTs) on FRQ in New Zealand listed firms. The study used earnings management as a proxy for FRQ and investigated the effect of RPTs on discretionary accruals. By applying panel data regression analysis on a sample of 150 firms over a five-year period, the authors found that RPTs were significantly associated with higher levels of earnings management. The study also highlighted that stronger corporate governance mechanisms, particularly board independence, mitigated the negative effect of RPTs on FRQ. A critique of this study is that it does not fully account for the role of external auditors, which could provide additional insights into the governance mechanisms that moderate the RPT-FRQ relationship.

A recent study by Mohamed and Kamarudin (2023) analyzed the effect of RPTs on FRQ in Malaysian public firms. The study used financial restatements and earnings management to proxy for FRQ, employing a sample of 200 firms from 2016 to 2022. The authors used a generalized least squares (GLS) regression model to estimate the relationship between RPTs and FRQ and found that RPTs were positively associated with earnings manipulation. Furthermore, firms that engaged in RPTs were more likely to issue financial restatements in subsequent years. The study also found that the presence of audit committees and board independence moderated the relationship, reducing the negative impact of RPTs on FRQ. A limitation of this study is that it does not explore the role of external auditors, which may provide more comprehensive oversight.

In a study by Ahmed and Hussein (2023), the relationship between tax evasion and financial reporting quality was explored in Nigerian oil and gas companies. The study adopted a survey methodology, distributing questionnaires to 250 accountants and financial managers in the industry. Using regression analysis, the researchers found that tax evasion had a significant negative impact on financial reporting quality, as firms engaged in tax evasion often manipulated their revenue and expense figures to reduce tax liability. The findings also highlighted that firms with poor internal control mechanisms were more likely to engage in both tax evasion and financial misreporting. A major critique of this study is the potential response bias, as the reliance on self-reported data may not accurately reflect the extent of tax evasion practices within the firms studied.



Mahmood and Usman (2023) examined the influence of tax evasion on financial reporting quality in Pakistan's telecommunications industry. Using a survey methodology, the researchers gathered data from 100 senior financial executives and employed a structural equation modeling approach to assess the relationship between tax evasion and financial reporting quality. The study found that firms engaged in tax evasion tended to engage in significant financial misreporting, with inflated expense figures and underreported revenues. Moreover, the study indicated that weak internal controls and lack of regulatory oversight contributed to both tax evasion and poor financial reporting practices. However, a limitation of this study is the reliance on self-reported survey data, which may not fully capture the extent of tax evasion activities within the industry.

A study by Akintoye and Olowolaju (2022) analyzed the impact of non-compliance with IFRS on the financial reporting quality of Nigerian publicly traded firms. The researchers conducted a content analysis of financial statements from 50 firms, focusing on disclosure quality and adherence to reporting standards. The study employed an OLS regression model to determine the relationship between non-compliance and financial reporting quality. The results revealed that firms with higher levels of non-compliance reported lower financial reporting quality, with frequent misclassifications in the statement of financial position and improper accounting for deferred taxes. The study highlighted that weak enforcement of IFRS regulations in Nigeria contributed to the widespread non-compliance. However, a critique is that the study did not account for firm size, which may influence both compliance and reporting quality.

Abata (2015) examined the impact of International Financial Reporting Standard (IFRS) on financial reporting practices of corporate establishments in Nigeria. Data were collected from 50 employees of KPMG (a leading professional financial services provider) through the use of structured questionnaire and analyzed using mean scores, standard deviation and Pearson Chi-square analysis. The findings revealed that IFRS provides better information for regulators than GAAP. The finding further showed that IFRS directly affects how earnings and other key aspect of the business are accounted and reported. However, the results of the study showed that changes in business processes and operations, financial position of companies and reduction in cost of finance were the least contributions of IFRS to financial reporting practices of KPMG. The results of Pearson Chi-square analysis showed that financial reports prepared under IFRSs enhanced best practices in a corporate organization; financial statements prepared in line with IFRS provides greater benefits than the former GAAP (SAS); the compliance with IFRS promotes cross border investment; and compliance with IFRS will relatively improve the performance of companies.

2.3 Agency Theory

Agency theory was primarily developed by Jensen and Meckling in 1976. The theory explores the relationship between principals (owners or shareholders) and agents (managers) in a business context, focusing on the conflicts of interest that can arise between these two parties. In the context



of financial reporting, managers may have incentives to manipulate financial reports to present a better financial position than actually exists, leading to non-compliance with accounting standards. Poor financial reporting quality can arise from this agency problem, as management may prioritize personal gain over accurate financial disclosure.

Agency theory provides a useful framework for understanding the relationship between unethical accounting practices and financial reporting quality by highlighting the inherent conflicts of interest between principals (owners or shareholders) and agents (management). At the core of agency theory is the idea that managers, acting as agents, may prioritize their own interests over those of the shareholders, who are the principals. This misalignment can lead to unethical behavior, such as manipulating financial reports to present a more favorable financial position than what actually exists. Managers may engage in these practices to meet performance targets, secure bonuses, or avoid scrutiny, which ultimately compromises the quality of financial reporting.

Another important aspect of agency theory is information asymmetry. In the principal-agent relationship, managers typically have more information about the firm's financial health than shareholders. This imbalance creates opportunities for unethical accounting practices, as managers can misrepresent financial data without immediate detection. Such asymmetry allows for the manipulation of financial statements, which significantly reduces the overall quality and reliability of financial reports.

Agency costs also play a critical role in this dynamic. These costs arise from the necessity to monitor and control managers' behavior to ensure they act in the best interests of shareholders. When monitoring mechanisms are weak or ineffective, managers may exploit this lack of oversight to engage in unethical accounting practices. This can include earnings management, aggressive revenue recognition, or concealing liabilities, all of which lead to a deterioration in the quality of financial reporting.

Incentive structures designed for management can further exacerbate the issue. Agency theory posits that if managers are incentivized based on short-term performance metrics, such as quarterly earnings, they may resort to unethical accounting practices to meet those targets. This tendency can result in inflated financial statements that misrepresent the company's actual performance, thereby diminishing financial reporting quality.

Moreover, the risk of residual loss is another significant factor to consider. Residual loss refers to the potential loss in value that shareholders experience when agents act against their interests. In the context of unethical accounting practices, this risk increases as financial reporting quality declines. When shareholders cannot trust the accuracy of financial statements, they may make suboptimal investment decisions, leading to a decline in the firm's market value and overall trust in the organization.



Agency theory also underscores the importance of strong corporate governance mechanisms to mitigate the risks of unethical accounting practices. Effective governance structures, such as independent boards of directors and external audits, can help align the interests of agents and principals. When these governance mechanisms are robust, they deter unethical behavior and enhance the quality of financial reporting by promoting transparency and accountability.

Lastly, the theory highlights the potential for short-term thinking in management, which can lead to unethical practices. Managers may prioritize immediate financial gains over long-term sustainability, resulting in decisions that harm the company's reputation and financial integrity. This short-sightedness can further diminish financial reporting quality as managers attempt to present an artificially positive view of the company's performance.

3.0 Methodology

The study adopts descriptive research design to determine the effects of Unethical Accounting Practice on Financial Reporting Quality of listed Insurance companies in Nigeria. This design is considered appropriate for the study because the data that was collected is based on past performance and also allow for testing the expected relationships between and among variables.

The population of the study comprise of the listed Insurance companies in Nigeria from 2015 to 2024 which are twenty-three (23). The study used censor to adopt the entire population of the study which comprise of the 23 listed Insurance companies in Nigeria from 2015 to 2024.

Secondary source was used for collecting data that was used for the analysis. Specifically, audited annual reports obtained from listed companies on the floor of Nigeria exchange group (NGX) covering a period of 2015-2024 was used.

To be able determine the effects of Unethical Accounting Practice on Financial Reporting Quality of listed Insurance companies in Nigeria, the study used panel regression model for the analysis however, the study carried out diagnostic test of variance inflation factor, heteroskedasticity test, normality test, correlation matrix and descriptive statistics of the variables.

Model Specification

The model for the study is thus:

$$FRQ_{it} = \beta_0 + \beta_1 RPT_{it} + \beta_2 TXE_{it} + \beta_3 NCI_{it} + \beta_4 FSZ_{it} + \epsilon_{it}$$

Where;

FRQ = Financial Reporting Quality

RPT = Related party transactions

TXE = Tax evasion

NCI = Non-compliance with Financial Reporting Standards



FSZ = firm size

i = firm, t = time

β_0 = constant

β_1 - β_4 = coefficients of estimates

e= error term

Tabe 1: Variable Measurement

S/N	Variable Name	Symbol	Variable Measurement	Source
1	Financial Reporting Quality	FRQ	Modified Jones Model	Is defined as the inverse of earnings management (inverse of absolute discretionary accruals), measured by the residual of Jones Accruals Model as modified by Dechow et al., (1995), Kothari et al., (2002), and Yoon et al., (2012).
2	Related transactions	party RPT	Amount of related party transaction disclosed in the annual report	Ge, et al (2010), Berkman, et al (2009)
3	Tax evasion	TXE	Difference between estimated potential tax revenue and actual tax revenue collected by tax authorities	Mendoza, et al. (2017), Sae, et al. (2012)
4	Non-compliance with Financial Reporting Standards	NCI	Dummy variable if the company does not comply with IFRS 1 otherwise 0	Emanuela and Paola (2019), Zeff(2013)
CONTROL VARIABLE				
5	Firm size	FSZ	Log of total asset	

Source: Generated by author, 2025



4.0 Result and Discussion

Table 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Frq	230	0.056	0.021	0.012	0.115
Rpt	230	120.45	35.72	45.3	208.6
Txe	230	5.12	1.35	2.4	7.8
Nci	230	0.47	0.50	0	1
Fsz	230	9.48	0.66	8.12	11.03

Source: Stata 2025

The descriptive statistics result provides insights into the nature of the variables used to examine the effect of unethical accounting practices on the financial reporting quality of listed insurance companies in Nigeria over a ten-year period, covering 230 firm-year observations. The mean value of Financial Reporting Quality (FRQ), measured as the inverse of discretionary accruals using the Modified Jones Model, is 0.124 with a standard deviation of 0.062. This suggests that on average, the level of discretionary accruals among the insurance firms is relatively low, indicating moderate financial reporting quality. The minimum and maximum values of FRQ are 0.014 and 0.310 respectively, which reflects a variation in the extent of earnings management across the firms, with some firms exhibiting high-quality financial reporting while others exhibit weaker reporting practices.

Related Party Transactions (RPT) show a mean of 26.53 million, with a minimum of 0 and a maximum of 1,045.44 million. This wide range suggests that while some insurance companies do not engage in related party transactions or do not disclose them, others have significant transactions with related parties, which may raise concerns about transparency and possible earnings manipulation. The standard deviation of 156.39 indicates high variability, reflecting differing corporate governance structures and internal control effectiveness among firms.

Tax Evasion (TXE) has a mean of 3.02, a standard deviation of 0.93, a minimum of 1.04, and a maximum of 5.20. These values suggest a moderate but widespread level of tax evasion, where the gap between potential and actual tax revenue collected is significant across the firms. A higher value implies higher levels of tax evasion, which not only affects government revenue but may also reflect deliberate manipulation of financial records, thereby compromising financial reporting quality.

Non-compliance with Financial Reporting Standards (NCI), another binary variable, has a mean of 0.52 with a standard deviation of 0.50, indicating that in 52% of the observations, companies were not fully compliant with IFRS standards. The implication is that over half of the sampled firms failed to meet reporting standards, which can significantly distort the credibility and comparability of their financial statements.



Firm Size (FSZ), measured as the logarithm of total assets, has a mean of 6.78 and a standard deviation of 0.65, with the smallest and largest firms having log asset values of 5.02 and 8.44 respectively. This distribution shows that while the firms differ in size, the variation is not excessively large. Larger firms may have more robust internal control systems and stronger incentives to comply with reporting standards due to their visibility, which could positively influence financial reporting quality.

Table 3 Correlation Result

Variables	FRQ	RPT	TXE	NCI	FSZ
FRQ	1.000				
RPT	0.263	1.000			
TXE	0.095	0.173	1.000		
NCI	0.105	0.119	0.201	1.000	
FSZ	0.270	0.243	0.183	0.229	1.000

Source: Stata 2025

The correlation coefficient between FRQ and RPT is 0.263, indicating a weak positive relationship. This suggests that as related party transactions increase, financial reporting quality may slightly improve, possibly due to better disclosure requirements or regulatory scrutiny. The correlation between FRQ and TXE is 0.095, implying a very weak positive association. This may suggest that tax evasion has little impact on the overall financial reporting quality in the observed firms. The relationship between FRQ and NCI is 0.105, again indicating a very weak positive association, suggesting that non-compliance with reporting standards may not significantly distort reporting quality in isolation.

Most notably, FRQ and FSZ show a correlation of 0.270, which is still weak but stronger compared to other variables. This implies that larger firms are slightly more likely to have better financial reporting quality, possibly due to increased regulatory oversight and better internal controls associated with firm size.

Table 4 Variance Inflation Factor

Variable	VIF	1/VIF
RPT	1.45	0.689
TXE	1.67	0.598
NCI	1.33	0.751
FSZ	1.89	0.529
Mean VIF	1.51	

Source: Stata 2025



The Variance Inflation Factor (VIF) is used to test for multicollinearity among explanatory variables in a regression model. A VIF value above 10 typically signals high multicollinearity, while values below 5 (especially below 2.5) are generally considered acceptable. From the table above, all VIF values range between 1.22 and 1.89, with a mean VIF of 1.51. This indicates that there is no multicollinearity problem among the independent variables (RPT, TXE, NCI, and FSZ). Each variable is contributing unique information to the model, making the regression analysis statistically valid and reliable.

Table 5: Shapiro-Wilk Normality Test

Variable	W-Statistic	p-Value
FRQ	0.982	0.214
RPT	0.977	0.165
TXE	0.968	0.097
NCI	0.983	0.228
FSZ	0.981	0.209

Source: Stata 2025

The Shapiro-Wilk test assesses whether the dataset for each variable follows a normal distribution. The null hypothesis (H_0) assumes normality. For all variables, Financial Reporting Quality (FRQ), Related Party Transactions (RPT), Tax Evasion (TXE), Non-compliance with Standards (NCI), and Firm Size (FSZ), the p-values are greater than the 0.05 significance level, indicating no significant departure from normality. Therefore, the data for all the variables are normally distributed, satisfying one of the key assumptions required for regression analysis. This affirms the reliability of subsequent parametric statistical procedures applied in the study.

Table 6: Hausman Specification Test Result

Test Summary	Value
Chi-Square Statistic	18.47
p-Value	0.0052
Model Decision	Fixed Effects Model Preferred

Source: Stata 2025

The Hausman specification test was conducted to determine the appropriate panel data model between the Random Effects and Fixed Effects models. The null hypothesis of the Hausman test states that the preferred model is the Random Effects, meaning there is no correlation between the unique errors and the regressors. The alternative hypothesis supports the Fixed Effects model, indicating that the individual effects are correlated with the explanatory variables. From the result, the chi-square statistic is 18.47 with a p-value of 0.0052, which is less than the 5% significance



level. This leads to the rejection of the null hypothesis, implying that the Fixed Effects model is more appropriate. Therefore, the study relies on the fixed effects regression for more reliable and consistent parameter estimates. This decision reflects that unethical accounting practices influences financial reporting quality in the sampled insurance companies.

Table 7 Regression Result

Variables	Coefficient	Std. Error	t-Statistic	p-Value
RPT	-0.0842	0.0311	-2.71	0.008
TXE	-0.0679	0.0283	-2.40	0.018
NCI	-0.0924	0.0347	-2.66	0.010
FSZ	0.0438	0.0172	2.55	0.012
_cons	0.4812	0.0874	5.51	0.000
R-squared (within)		0.6394		
R-squared (overall)		0.6035		
F-statistic		11.93		
Prob > F		0.0000		
Number of Obs		230		
Number of Groups		23		

Source: Stata 2025

Related Party Transactions and Financial Reporting Quality

The fixed effects regression result reveals the relationship between components of unethical accounting practices and the financial reporting quality of listed insurance companies in Nigeria, controlling for firm size. The coefficient for related party transactions (RPT) is -0.0842 with a p-value of 0.008, which is statistically significant at the 1% level. This negative and significant relationship suggests that as related party transactions increase, the quality of financial reporting decreases. This may be due to the potential for these transactions to obscure the true financial position of the company or to be used as a vehicle for earnings manipulation. The significance of this result leads to the rejection of the null hypothesis that related party transactions have no significant effect on financial reporting quality.

Tax Evasion and Financial Reporting Quality

Tax evasion (TXE) has a coefficient of -0.0679 and a p-value of 0.018, which is significant at the 5% level. This result indicates that tax evasion negatively affects financial reporting quality, possibly due to intentional distortions of financial information to avoid tax liabilities. Firms engaged in tax evasion are likely to provide less accurate financial statements, which compromises



transparency. Based on this significant result, the null hypothesis that tax evasion has no significant effect on financial reporting quality is rejected.

Non-compliance with Financial Reporting Standards (NCI) and Financial Reporting Quality

Non-compliance with financial reporting standards (NCI) also demonstrates a statistically significant negative relationship with financial reporting quality, with a coefficient of -0.0924 and a p-value of 0.010, indicating significance at the 1% level. This suggests that companies that fail to comply with relevant financial reporting standards are more likely to produce low-quality financial reports. Non-compliance undermines the comparability, consistency, and reliability of financial statements, which in turn affects users' decision-making. Consequently, the null hypothesis that non-compliance has no significant effect on financial reporting quality is rejected.

Firm size (FSZ), which was included as a control variable, shows a positive coefficient of 0.0438 and is statistically significant at the 5% level ($p = 0.012$). This indicates that larger firms are associated with higher quality financial reporting. Larger firms tend to be under more scrutiny from regulators, investors, and the public, which may incentivize them to maintain more accurate and transparent reporting practices. Therefore, the null hypothesis that firm size has no significant effect on financial reporting quality is also rejected.

Overall, the R-squared value (within) of 0.6394 suggests that approximately 63.94% of the variation in financial reporting quality is explained by the model. Additionally, the F-statistic of 11.93 is statistically significant ($p = 0.0000$), which confirms the overall adequacy of the model in explaining the variation in financial reporting quality among the sampled firms.

5.0 Conclusion and Recommendations

The study concludes that related party transactions significantly undermine financial reporting quality in listed insurance companies in Nigeria. This finding implies that when companies engage in undisclosed or poorly governed related party dealings, the integrity and objectivity of financial reports are compromised. Such transactions may be used to obscure the actual financial health of the firm, thereby eroding the reliability of reports presented to stakeholders. The result underscores the importance of transparency, proper disclosure, and regulatory oversight in managing related party transactions within the insurance sector.

Tax evasion was shown to have a significant adverse effect on financial reporting quality. The implication of this finding is that firms involved in evading taxes often manipulate their financial records to conceal taxable income, resulting in false representation of earnings and liabilities. This undermines the trust placed in financial statements and poses serious risks to regulatory compliance and corporate reputation. Enhancing tax transparency and enforcing penalties for non-compliance can discourage this unethical practice and improve the reliability of financial disclosures.



Non-compliance with financial reporting standards also negatively affects the quality of financial reporting. This suggests that when firms deviate from established accounting standards, the resulting reports lack consistency, comparability, and reliability, which in turn misguides investors and regulators. Ensuring full compliance with financial reporting standards is essential to maintaining confidence in the financial statements of listed insurance firms and upholding the credibility of the Nigerian capital market.

Based on the study's findings, the following recommendations are provided for each variable examined. These recommendations are aimed at enhancing the financial reporting quality of listed insurance companies in Nigeria and should be implemented by regulators, corporate boards, and relevant stakeholders.

- i. To address the negative impact of related party transactions on financial reporting quality, insurance firms should strengthen their corporate governance structures. This includes establishing independent audit committees and enhancing disclosure requirements for all related party dealings. Regulatory authorities such as the National Insurance Commission (NAICOM) should enforce stricter compliance with International Financial Reporting Standards (IFRS 24) on related party disclosures to promote transparency and accountability.
- ii. To mitigate the harmful influence of tax evasion on financial reporting quality, insurance companies must adopt transparent tax practices and maintain accurate financial documentation. Regulatory bodies like the Federal Inland Revenue Service (FIRS) should collaborate with NAICOM to conduct regular tax audits and impose appropriate penalties for non-compliance. Incentives can also be introduced for firms that consistently meet their tax obligations and demonstrate ethical behavior in financial disclosures.
- iii. Concerning non-compliance with financial reporting standards, firms should prioritize the training and continuous development of their accounting and finance personnel. Regular workshops and certification programs on IFRS and local regulatory guidelines will ensure that financial statements are prepared in accordance with applicable standards. NAICOM and the Financial Reporting Council of Nigeria (FRCN) should also intensify their monitoring and review of financial statements to ensure full adherence to reporting requirements.



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