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DOES RISK GOVERNANCE IMPROVES FINANCIAL REPORTING QUALITY OF LISTED NON-FINANCIAL FIRMS IN NIGERIA?

Mustapha Madu
Internal Audit Unit
Nigerian Midstream and Downstream Petroleum Regulatory Authority
(NMDPRA), Abuja-Nigeria
madumustapha@gmail.com
mustapha.madu@nmdpra.gov.ng
+234(0)8037910245, +234(0)8050736919

Shehu Usman Hassan PhD
Professor of Accounting and Finance
Department of Accounting
Federal University of Kashere- Nigeria
shehu.hassan@fukashere.edu.ng
shehu.hassanus.usman@gmail.com
+234(0)8067766435, +234(0)8057777085

Abstract
Risk governance is beyond mere governance mechanisms such as board independence and committees but more significantly encompasses effective risk systems and policies, remuneration, performance management and the risk culture of the entity. This study integrates explores the relationship between risk governance dimensions of risk structure, culture, appetite and financial reporting quality of listed nonfinancial firms in Nigeria. The population of the study consists of all the 74 listed non-financial firms that are active on the Nigerian Stock Exchange as at 31st December, 2019. The sample is the total population for the study using census sampling technique. Secondary source of data was used and data extracted from the audited annual report and accounts of selected firms for 10 years period. Longitudinal Balanced Panel Multiple regression was used as a technique of data analysis for the study. The findings indicates that the coefficient of Risk Governance Structure is negatively and significantly determining the quality of financial reporting with a t-value of -8.350 and a probability value of 0.000 ($p<0.000$) which is significant at 1%. Similarly, the regression results show a negative association between Risk Culture and financial reporting quality, which is significant at 1% ($p<.001$). Thus, risk culture improves the quality of earnings which invariably increases financial reporting quality. Finally, the regression coefficient in respect of Risk Apatite stood at 0.430 with a t-value of 9.250, which is statistically significant at 1% ($p<.000$), which implies that where the risk apatite increases, the financial reporting quality of the selected firms reduces. The study concludes that risk governance plays an important role in improving the quality of financial reporting of listed non-financial firms in Nigeria. It is therefore recommended among others that shareholders should consider adhering strictly with the provision of the New Corporate Governance Codes while appointing board members so as to appoint members capable of monitoring firms risk investment by serving in board risk committee. Firm managers should also consider maintaining a good risk culture and improving risk appetite to improve financial reporting quality of listed non-financial firms in Nigeria.

Keywords: Risk Governance Structure, Risk Culture, Risk Appetite, Financial Reporting Quality

1. Background issues

One of the primary responsibilities of the board of directors is to ensure the quality and integrity of the financial accounting information disclosed in the financial statements (Cohen, Krishnamoorthy, & Wright, 2017). The Risk Governance (RG) architecture of the board of directors can significantly influence the quality of financial reporting of an entity. Risk governance encapsulates the entire entity-wide structures, formal relationships, risk culture and appetite designed to support and galvanize risk-conscious decision-making for optimal risk management outcomes. Risk governance is a framework through which the board and management establish the firm's strategy, articulate and monitor adherence to risk appetite and risks limits, and identify, measure and manage risks. The governance responsibilities of the board include risk governance and culture, objective and strategy setting; performance; information, communications and reporting and constant review and revision of operational practices to improve performance of the organisation (COSO, 2017).

The plethora of financial and accounting frauds worldwide has created a logical enquiry into the risk governance practices of corporate entities. This has prompted academics, professional, governing boards, rating agencies to pay attention to risk governance and regulatory agencies to promulgate legislations, advisories and codes of governance and recommendations to strengthen risk-based decisions for optimal outcomes. However, instituting robust and effective risk governance system helps engender accountable management, the mitigation of bad practices and management of significant risks facing an entity for enhanced quality of accounting information to stakeholders (Fathi, 2013). A robust risk governance system is responsible for ensuring the quality of financial reporting by founding effective internal control mechanism (Chen, et. al, 2015) and risk management practices (Amartey and Kamal, 2018). It is believed that risk governance system ensures that the board is responsible for being actively involved in risk monitoring and risk governance oversight as the critical basis for effective risk management practices. The emergence of the global financial crisis of 2007-2008 was attributed to the combined effects of corporate governance arrangements and ineffective risk management practices which contributed to its severity (Gontarek, 2016).

In the Nigerian context, notable corporate accounting and financial shames have been witnessed over the two decades in the nonfinancial sector including the famous accounting frauds perpetrated by Cadbury Nigeria PLC, a nonfinancial firm. Recently, the Nigerian Securities and Exchange Commission (SEC) alleged fraudulent financial statement practices against the energy giant Oando Marketing Plc. Since these are blue chip companies within the context of the Nigerian Stock Exchange (NSE), it would be within reasonable expectation of investors and stakeholders to assume that risk management practices were firmly instituted in these firms and all corporate entities. Lingel and Sheedy (2012) observed that corporate entities may overstate their commitment to risk management to circumvent unwelcome regulatory and stakeholder scrutiny in a business world of the moral hazard problem and possible bailouts from the public treasury. To underscore the significance of sound risk management practices, the Nigerian regulatory authorities have emphasized the establishment of risk management structures embedded with appropriate risk culture and appetites. For instance, the Section 11.5 of the 2018 Nigerian Corporate Governance Code (NCGC) requires all listed firms to provide Risk Management Committee (RMC) with active involvement in risk governance and oversight function.

Enhancing the overall risk governance architecture may lead to positive effect on the quality of financial accounting information. Many studies on the relationship between the risk governance system and quality of financial reporting have attracted the attention of academic and professional researchers. Most of the prior research focused on investigating the effect of the risk governance structure- the board structure, ownership structure, characteristics, independence and frequency of meetings and so on (Hassan and Bello, (2013); Song and Kemp (2013), Wang, Bloomberg, Zhang & Zhang (2015); Luo, (2017), Wadesango; Mhaka, &Wadesango, (2017), Cohen, Krishnamoorthy, & Wright (2017), Nichita, M. (2018); Amartey & Kamal, (2018), Olayinka, Uwuigbe. Sylvester &Uwuigbe, 2018), Haruna, Kwambo& Hassan (2018). Other previous studies have considered the use of corporate governance index or scores of the structural dimensions of risk governance (Gordon, et. al, 2009); risk ratings (Xu, Grove &Schaberl, 2013; Baxter, Bedard, Hoitash&Yezegel; 2013; Amartey & Kamal, 2018) and board risk oversight disclosures (Edmonds, Edmonds & Leece, 2015). In a related investigation, Fathi (2013) employed the technique of overall governance index in conjunction with sub-governance indices to evaluate governance system. Following the recommendation of an exploratory study by Gontarek (2016), this study integrates the three dimensions of risk governance system namely risk structure, culture and appetite as increasingly important elements of an effective risk governance architecture gaining the attention of regulatory authorities. It is the opinion of this paper that risk governance is beyond risk structures but incorporates the entire risk management weaponry of the organisation as a techno-social entity to encompass the risk culture and risk appetite of an entity. Bromiley et al (2015) suggested that the question of whether entities demonstrate consistent risk cultures and appetite deserved further empirical investigations? This therefore, triggers examining the tripartite dimensions of risk governance because they holistically capture the complexity of risk governance system and reflects the architecture of its governance. The main preoccupation of this study is to empirically examine whether adoption and implementation of risk governance initiatives incorporating three (3) inherent dimensions namely the formal risk structures, risk culture and risk appetite- can affect the quality of financial reporting of listed non-financial companies in Nigeria.

The risk culture dimension of risk governance consists of the organisational risks value system, ethos, beliefs and principles guiding the management of entity-wide risk profiles and exposures of an organisation. It is the shared perceptions among employees of the relative priority given to risk assessment, including that of the risk-related practices and behaviors that are expected, valued and supported (Sheedy, Griffin and Barbour, 2017). Relevant risk governance international frameworks like the Basel Committee Recommendations and national corporate governance jurisdictions like the Nigerian Code of Corporate Governance (SEC Code 2011) and (2018 FRCN Codes) underscore the imperative of the board of directors in setting the appropriate risk culture to discourage unethical practices and mitigate conflict of interests towards managing the risk exposures of the entity for optimal organisational objectives. A robust and effective risk culture has been seen as a necessary condition for setting the tune for sound risk appetite model that naturally links up with the risk governance initiatives of the organisation (IIF; 2011).

One of the recommended risk governance practices recognised by the 2018 Nigerian Corporate Governance Code (NCGC) is strengthening and articulating appropriate risk appetite and limits by the board of directors of listed companies. Gontarek (2016) described Risk Appetite as a formal written articulation of the aggregate level and types of risk elements that an entity would accept or avoid as a business strategy to attain its organisational objectives. The risk appetite dimension of the RG system underscores the strategic posture the entity adopts for managing its

risk levels and profiles towards the attainment of the corporate objectives. Davies (2013) posited that it is the responsibility of the risk governance framework of an entity to regularly and consistently review its risk appetite and the quality of its financial statements as a vital ingredient for sound corporate governance practices. Expectedly therefore, the risk appetite framework of an entity invariably defines the aggregate risk levels and intensity it is ready to take and hence the managerial discretion towards earnings management practices.
Rowchowdhury (2006) grasps real activities manipulation as departures from normal operational practices, motivated by managers' desire to mislead at least some stakeholders into believing certain financial reporting goals have been met in the normal course of operations. These departures do not necessarily contribute to firm value even though they enable managers to meet reporting goals. Certain real activities manipulation methods, such as price discounts and reduction of discretionary expenditures, are possibly optimal actions in certain economic circumstances. However, if managers engage in these activities more extensively than is normal given their economic circumstances, with the objective of meeting/beating an earnings target, they are engaging in real activities manipulation, which is expected to be checkmated by effective corporate risk governance.

Summarily, contingent on the results of previous studies indicating inconsistent and inconclusive findings, the impact of risk governance on the quality of financial reporting is subjected to empirical re-examination using listed nonfinancial firms in Nigeria. Hence, this study is conducted.

The main objective of the paper is to investigate the effects of risk governance on the quality of financial reporting of non-financial firms listed on the Nigerian Stock Exchange (NSE). The specific objectives are to empirically;

i. identify the effect of risk governance structure on the quality of financial reporting of Nigerian Nonfinancial Firms.

ii. determine the impact of risk culture on the quality of financial reporting of Nigerian Nonfinancial Firms

iii. examine the effect of risk appetite on the quality of financial reporting of Nigerian Nonfinancial Firms

The drive of this paper theoretically and practically is expected to serve as addition to knowledge in the area of risk governance and quality of financial reporting in firms. As observed by Viscelli, Beasley and Hermanson (2016), a growing number of academic literature supports and encourages a clear distinction between risk management and risk governance. The contribution of this research addresses the integration of the dimensional aspects of risk governance as a corporate governance construct.Though risk governance is applicable to all firms and diverse industries as provided in (COSO, 2004 and 2017), corporate entities from the non-financial institutions have been lethargic in risk governance as the financial sector entities have been compulsorily made to implementing risk governance system. The choice of the non-financial firms is informed by the fact that the sector has significant size and trading volume and associated with market risks on the Nigerian Stock Exchange (NSE). Theoretically, the findings of the study is expected to validate two theoretical explanations; signalling and agency theories. As observed by Ittner & Keusch (2015) theoretical postulations predict that risk governance can be useful to the stakeholders by reducing risk-related agency problems, however critics contend that changes in board room practices in response to externally imposed pressures and scrutiny may simply be window-dressing initiative. Practically, the findings of this research is expected to serve as a policy guide for the shareholders, management and other stakeholders of firms in Nigeria.

The next sections of the research are organized as follow; Section 2 reviews the related previous studies. Section 3 examines the research methods, model and robustness tests. Section 4 presents the results, and discusses findings and finally section 5 gives the conclusion and recommendations of the research.

2. Theory and Hypotheses Development

This section considers the relevant literature to have clear perspectives on the subject. The issues reviewed include empirical literature review of the nexus between risk governance structure and quality of financial reporting, risk cultures and financial reporting quality and risk appetite and financial reporting quality. Relevant literature reviews are supported by relevant theories of Signaling and Agency.

2.1 Risk Governance Structures and Financial Reporting Quality

It is normally considered that risk governance is the primary responsibility of the board of directors for providing appropriate monitoring mechanism for risk oversight (Aebi et. al., 2011) and which is seen as a critical aspect of sustainable value creation of an entity. Renn et. al. (2011) observed that understanding the structures, functionality and dynamics of the risk governance process demands a complete and total understanding of structural architecture and procedural mechanisms. Instituting effective governance structure is necessarily important in promoting the integrity and quality of financial reporting (Razali & Arshad, 2014). The traditional and emerging governance literature have considered the efficacy of the risk governance structure from diverse governance mechanisms including board structure, ownership structure, the ratio of executive and non-executive directors, gender proportions, financial literacy proficiency and backgrounds of members of the board risk management or audit committees on firm's performance in particular and value in general. Others have investigated the level or extent of Enterprise Risk Management (ERM) or risk governance system based on the appointment of Chief Risk Officer (CRO) on the value of the firm. However, the use of CRO as a measure of risk governance structure has many drawbacks. Firstly, the CRO as a governance structure for risk management has been a mandatory or recommended mechanism for financial institutions as required in many national and international jurisdictions including the Basel Accords. Secondly, the two relevant corporate governance codes in Nigeria namely the SEC's 2011 code and the 2018 NCGC issued by the FRCN were silent on the Chief Risk Officer as a risk governance mechanism but made relevant recommendations in respect of the audit committee and risk management committee. Thirdly, Beasley, Pagach & Warr (2008) assailed the use of Chief Risk Officer (CRO) as a proxy for the implementation of risk governance system as it does not perfectly capture the extent of its implementation.

The Risk Management Committee (RMC) as a standalone risk management mechanism has been seen as the latest global corporate governance practice (Lundqvist, 2015; Iselin, 2014, 2016, 2019; Hines and Peters, 2015). The Audit Committee has been traditionally charged with the responsibility for compliance with general internal control system and risk assurance (Viscelli, Beasley & Hermanson, 2016). In recent times too, the increasing importance of the internal audit function as risk governance structure has been established as a separate function in furtherance of the risk governance system (Beasley, et al, 2016; Abbott, Daugherty, Parker & Peters, 2016) and jointly with the board's audit committee (Gebrayel, Jarrar, Salloum & Lefebvre, 2018). Viscelli et al. (2016) posited that the increasing expectations for more effective board governance has necessitated the internal audit function to assist the board in ensuring robust risk governance system. A number of guidance and recommendations have been made in respect of the role of the internal audit mechanism in risk management like the COSO and the Auditing Standard Board of the American Institute of Certified Public Accountants (AICPA). The COSO (2004) recommended for providing an objective reasonable assurance to the board of directors on the efficacy of risk management. The Statement of Auditing Standards (SAS) 53 assigns the responsibility to the auditor for detecting errors and material irregularities impacting on the financial statements. Lundqvist (2015) established that a coherent and portfolio-based approach to the organisation of the risk governance structure has been seen as the major sign of an effective risk governance system including the creation of separate risk committee and crafting an apocopate risk management philosophy. Generally, the board is concerned about how appropriate and consistent the risk governance system is operating and its efficacy to generate risks information to execute strategies to protect and enhance stakeholder value (Viscelli et. al; 2016). Abdullahi & Shukor (2018) argued that the risk governance responsibility of the board involves effective management and supervision of structures to accommodate wider stakeholder interests and to guarantee provision of information transparency.

The Audit Committee have been basically concerned with oversight in respect of auditing issues regarding an entity's financial system information risk management in respect of quality of the financial reporting processes (Brown, Steen & Foreman, 2009). In the empirical literature on the impacts of the audit committee, diverse univariate and multivariate statistical linear regression methods, Spearman Correlation and Logistic regression analyses were applied. For instance, Mohammad, Wasiuzzaman, Morsali& Zaini (2018), Kibiya, Che-Ahmad & Amran (2016), Hassan (2013); Fathi (2013); Holtz & Neto (2014); Cohen, Hoitash, Krishnamoorthy & Wright, (2017); Soliman & Ragab (2014); Obigbemi et. al, (2016); Patrick, Paulinus & Nympha (2015); Okougbo&Okike (2015); Eyenubo, Mohammed & Ali (2017); Al Shaer, Salama & Toms (2017); Oliver & Ofoegbu, (2017); Velte (2018); Saona, Muro & Alvarado (2019); Ifeanyichukwu &Ohaka (2019); Aifuwa&Embele (2019); Osemene, Adeleye &Adinnu (2018); Goncalves, et.al. (2019) and Mohamad, Abdurrahman, Keong & Garrett (2020) using qualitative research method and the quality of financial reporting process. The findings of the majority of the aforementioned empirical studies, the effect of board audit committee was established to have significant positive relation with Financial Reporting Quality (FRQ). In the empirical literature of Patrick et. al. (2015); Mohammed, et. al. (2018); Kibiya et. al (2016); Shankaraiah& Amiri (2017); Saona et. al. (2019) established empirical evidences for the positive impact of risk governance structure on FRQ. In Badolato et al. (2014); Cohen et. al. (2014); Cohen et. al. (2013); Velte (2018); Al Shaer et. al. (2017); Oliver & Ofoegbu, (2017) for instance, established the impact of board committee's financial literacy and industry expertise on FRQ. In a related empirical study, Hassan (2013); Holtz & Neto (2014) and Fathi (2013) have found statistical positive effect of internal board monitoring mechanisms on the FRQ and both Eyenubo et. al. (2017) and

Okougbo&Okike (2015) confirmed statistically significant impact of the audit committees' size on FRQ. Thus, it is expected that the quality and effectiveness of audit committee would significantly enhance the quality of financial reporting. Even empirically, many results have confirmed that robust and effective governance structures are crucial to constraining the negative effect of earnings management practices and thereby enhancing the credibility and integrity of financial reporting quality (Razali & Arshad, 2014; Neffati et.al. 2011). However, the empirical research of Qinghua et. al (2007); Mohamed & Ragab (2014); Obigbemi et. al. (2016); Osemene et. al. (2018); Ifeanyichukwu &Ohaka (2019); Aifuwa&Embele (2019) and Mohamad et. al (2020) have produced mixed evidences on the impact of diverse board characteristics on the FRQ while the recent research study of (Saona et.al. 2019; Goncalves et. al. (2019) established that a balanced gender diversity of board governing structures have positive impact on the intensity and positive direction of earnings management and enhanced FRQ.

There has been recent increasing interest on the value relevance of stand-alone Risk Management Committee (RMC) as a corporate governance mechanism on risk-taking and firm value (Hines, 2012; Bhuiyan, Cheema & Man, 2017). Majority of the empirical evidences on investigation of BRMC as a separate governance structure or in association with the audit committee on their impacts on diverse corporate policies and organisational outcomes like on risk outcomes and risk-taking (Lingel & Sheedy, 2012; Stulz, 2014); effects on entity's value and performances (Battaglia & Gallo, 2015; Kallamu, 2015; Gontarek, 2017; Kakanda &Basariah, 2017; Kakanda, Basariah, &Sitraselvi, 2017a, 2017b, 2017c; & Shivaani, 2018; Abubakar, Ado, Mohamed & Mustapha, 2018) on firm's efficiency (Wu, Qian, We-Min, & Noor, 2016) on hedging activities (Abdullah, Ku, Ku, 2015; Abdullahi, Ismail &Isa, 2015); on audit pricing and fees (Hines, Maslin, Mauldin & Peters, 2015; Larasati, Ratri, Nasih &Harymawan, 2019) and RMC determinants and consequences in organisations (Hines, 2012; & Hines & Peters, 2018; Abdullahi & Shukor, 2018;) and on QFR, earnings management practices and information risk disclosures (Nahar et. al. 2016; Kakanda et. al. 2017a, 2017b, 2017c).

In related review of empirical studies on the Board Risk Management Committee (BRMC), the overwhelming evidences have established positive impact of RMC against some proxies of financial reporting quality and accounting information. Using data of 80 listed non-financial companies on the Nigerian Stock Exchange (NSE) for operating financial period of 2012-2016, Sani et. al. (2018) established that board of directors consisting of effective RMC with independent directors mitigated the opportunistic behaviour of management to manipulate the real earnings of the firms under investigation. Bhuiyan, Cheema & Man (2017) investigated the impact of a stand-alone RMC on the corporate risk-taking and value of firms establishing that there is positive effect of a stand-alone RMC on enhanced risk-taking exposures and improved investor protection. Thus, it is expected that well-structured firms with independent and effective RMC guarantees efficacious risk management practices as a result of increased and focused risk oversight. In Kakanda et. al. (2017a, 2017b,2017c), Abdullah & Shukor (2017), for instance, the effectiveness of the RMC is statistically significant in ensuring the transparency and credibility of information risks and risk management disclosures in particular and organisational performance in general. In a relevant research result on the relationship between RMC and modified audit opinion, Ishak (2015, 2016), it has been established that having a separate RMC has negative relationship with the acceptance of modified audit opinion which invariably confirm empirical support for a standalone effective RMC for the enhancement of financial reporting quality of corporate entities. The nexus between accounting information risk disclosures and the quality of financial accounting information is crucial for ensuring investor confidence and other stakeholders of an entity (El-Hewety, 2019). However, Abdullah & Chen, (2010) found that on average, the quality of financial information disclosures was low due to lower disclosure of financial instruments information to investors. Hines and Peters (2015) provided empirical evidence that firms with lower quality of financial reporting voluntarily established separate RMC as a deliberate corporate governance policy.

The recognition for composition of Board Risk Management Committee has become the concern in risk management in recent times (Hines, 2012; Iselin, 2014; Hines & Peters, 2015). Also key aspect of the internal governance structure is the establishment of the internal Audit function as a complimentary risk governance mechanism on behalf of the governing board for more enhanced and effective risk governance (Viscelli et. al, 2016). Therefore, an integrated risk governance structures is essential for providing the required organisation, direction and control of the risk governance system. The focus of this study is on the relevant empirical studies concerning the effects of audit committee (twenty-four studies), board risk management committee (eight studies) and the internal audit function/audit committee (ten studies) on earnings management and financial reporting quality. The literature has reported plethora of empirical studies on risk governance structures and their execution (audit committee, board risk management committee and internal audit function or both joint effects of the board audit committee and the internal audit function) on the quality of financial reporting of firms. Hence, it is hypothesized that:

H_{O1}: Risk governance structures have no significant effect on the quality of financial reporting of Nigerian Nonfinancial Firms

2.2 Risk Culture and Financial Reporting Quality

The board of directors assume basic responsibility not only for risk governance including determination of significant risks and internal control system of an entity but also ensures that the right risk culture has been embedded throughout the firm towards achieving its strategic objectives (FRCN, 2014). An effective and robust risk culture has been thoughtfully considered to be an invaluable factor to an entity necessary for the consolidation of its resilience and ensuring sustenance of an entity’s economic value and its risk culture (Gibbons & Kaplan, 2015). It has been stressed that a virile risk structure that is consistent with the right business model and risk culture could serve as constraining factors to mitigating against excessive risk-taking and for enhancing sustainable value maximization of an entity (Alix, 2012). Therefore, Integrated risk governance system requires consideration of risk culture to create an affective stakeholder goal-oriented entity and an as essential avenue for value creation in the risk management system (FSB, 2014).

Gorzen-Mitka (2018) canvassed for a change in mindset of corporate organisations towards articulation of risk governance processes bearing the cultural dimensions of the corporate governance system. Organisational culture is inherently linked to both operational and governance risks (Acharyya& Johnson, 2006). It is in recognition of the growing significance of the cultural dimensions of corporate organisations that risk culture really matters in modern risk governance system and both regulatory and rating agencies increasingly underscored the significance of an effective risk culture as a crucial dimension of a virile governance framework in organisation (Wood & Lewis, 2018). Sheedy & Griffin (2017) empirically established that top-level executives demonstrated excellent perception of organisational risk culture in general terms and where favourable risk cultures were embedded with effective and robust risk structures, both impacted positively with improved patterns of desirable and lower levels of unwarranted risk behaviors.

One of the fall-out of the global financial crises is concerned for enhanced risk-based approach to corporate governance and credibility of the financial reporting processes. Sheedy and Tam (2019) stressed that since the global financial crisis, compliance with risk policy in corporate entities has become an important subject of research in corporate governance. It is in this regard that government regulators in national and international jurisdictions have attached premium for entities to demonstrate having a robust and efficacious risk management culture (Gorzen-Mitka, 2015). The significance of risk governance in incorporating the cultural dimensions of risk-taking should consider industry-related variations in risk perception, change management and attitudes towards risk management and the development of the overall risk management system. To underscore the significance of the behavioral dimensions of risk governance, Renn at. al. (2011) aver that many aspects of risks are not amenable to simple mathematical manipulations which could be computed as a function of probability distribution and effects and challenges in the assessment of risk cultures. Wood & Lewis (2018) identified the qualitative significance of risk culture to include better decision-making, enhanced governance regime. Adherence to rules and policies, good regulatory relationships, better corporate communications and enhanced accountability.

Sheedy and Tam (2019) examined the relationship between organisational risk culture and stress tests results within the context of financial institutions. The results indicated empirical evidence that an enhanced and better risk culture yielded improved stress tests results measured by the financial leverage ratio and a variable quantifying adjustment of the assessed credit risks derived from Asset Quality Rating (AQR). A related lab-in-the-field experimental research by established evidence that the risk culture of the organisations positively increased the proportion of compliance by 16.3% points. Herath &Albarqi (2017) conducted a comprehensive literature survey on the explanatory variables impacting earnings management and concluded that the quality of financial reporting outcomes is positively related to the risk culture of corporate entities. Ji & Welch (2017) established the empirical evidences on the combined impacts of corporate culture, job satisfaction and opinions of the top-level leadership on earnings management practices involving 14,282 entities in the period 2008-2015. In conformity of the boiler room effect hypothesis, the study established that an adverse organisational culture was associated with increased probability for opportunistic practices and also it was found that corporate culture and financial reporting risk were higher in firms characterized by weak and ineffective board independence (Deloitte, 2016).

Using rank regression model on a cross-country data set, Callen, Morel and Richardson (2011) found mixed empirical evidence on the twin impacts of culture and religion on earnings management practices. While the extent of religious affiliation and degree of religiosity had no statistical relation to opportunist accounting behaviour, the results indicated the positive effect of uncertainty avoidance of the cultural dimensions in relations to earnings management but a negative statistical relationship of the cultural factor of individualism against opportunistic accounting practices. A related empirical study by Boahen (2017) examined the effects of organisational religious social norms interactions with corporate governance and the Big4 external audit firms on reported earnings management practices after the passage of the Sarbanes-Oxley Act 2002. The overall effect of the study established evidence that religiosity mitigated against opportunistic managerial behaviour and also served as a veritable compliment to effective corporate governance system and for compliance with provisions of the Sarbanes Oxley Act 2002 legislation in the USA. In a religiously inclined social clime, managers had disincentive to indulge in manipulating core earnings, misclassifying revenue items whereby the risk cultural norms served as effective compliments to sound governance practices and external audit engagements against accounting manipulations of core business revenue and expense items.

He, Cox and Kimmel (2017) found empirical evidence that both cultural and institutional factors were statistically significant in impacting on earnings management with the results indicating positive relationship of the cultural dimensions of uncertainty avoidance, individualism, power distance on earnings management practices in a cross-country study involving seven (7) countries. A related empirical literature by Putra, Pagalung& Habbe (2018) established statistical positive relationship between risk culture on earnings management practices and quality of financial reporting within the context of South East Asian Countries. It was found that entities in jurisdictions characterized by low level of agency costs reported lower earnings quality which signified that earnings management practices were desirable and efficient in curbing opportunistic accounting behaviour of management. The study also found evidence that large corporate organisations demonstrated less incentives to indulge in manipulative accounting practices than the smaller firms. In the same vein, Garbade (2016) stressed the need for boards of directors in the US banking industry to imbibe the right risk culture towards supporting the growth strategy and inducing behaviour for enhanced financial stability necessitating the integration of the behavioral dimensions in risk management practices in the financial services industry. This would ultimately enhance corporate financial reporting quality and transparency with a view to mitigating governance-related agency problems for stakeholder value-maximization. Sheedy & Griffin (2014) emphasized that though governance and other structural frameworks support risk management function and are often considered as potential divers for risk culture, they are clearly distinct from risk culture as combined effects of structures with favourable risk culture create desirable risk behaviour like enhancing accountability and discouraging gaming behaviour. In view of this review, it is posited that:

H_{O2}: Risk cultures have no significant effect on the quality of financial reporting of Nigerian Nonfinancial Firms

2.3 Risk Appetite and Financial Reporting Quality

Risk appetite signifies the amount of risk the board of directors of an entity are willing to assume in the pursuits of its value maximization (Rittenberg & Martens, 2012). One of the principal guidance of the Walker and Stanley (2009) was for the board of directors of corporate entities to assume significant responsibility for the determination of the appropriate risk appetite an entity is willing and capable of taking pursuant to attaining its strategic objectives. PwC (2013) stated that crafting the right risk appetite serves as a bridging point between corporate governance and risk management primarily designed to align risk management with the long-term value optimisation of business entities and an avenue for ensuring an effective corporate governance system (Govindarajan, 2011). Lam (2015) posited that the best governance model consists of deliberate risk governance oversight that addresses the principal risk metrics, exposure limits and governance oversight processes to guarantee that the entity-wide risks are within the manageable and acceptable levels. Jackson (2020) claims that consideration for risk appetite and clear risk accountability of an entity form the fulcrum of risk governance and promotion of internal processes and prevention of excessive risk-taking in banks. Case studies of failed firms were connected with financial institutions having weak and ineffective risk appetite frameworks (Deloitte, 2014b). Gontarek (2016) conducted a pioneering exploratory study emphasizing that with an effective and appropriate risk governance structure, embedding the right risk appetite statements supported by sound and virile risk culture assumed significant importance in the risk governance system in financial institutions. A related research study by Zhang (2016) established the contingent factors necessary for the articulation and monitoring of risks appetite in the international hotel industry towards enhanced corporate governance system and performance.

In a related literature, Gontarek and Bender (2018a) investigated the risk appetite practices of global financial institutions establishing empirical impacts of risk-appetite-committed firms on wide-range of entities activities including improved monitoring, enhanced risk aggregation with synergistic effects and better-managed risk conduct levels and behaviour. Gustafsson &Omark (2015) conducted a quantitative study on association of financial literacy on financial risk tolerance towards managing personal finance and for retirement planning. The empirical findings established evidence that the level of financial literacy is positively related to the intensity of financial risk tolerance with individuals scoring low levels of financial literacy more inclined to displaying higher levels of financial risk tolerance. In Belghitar& Clark (2011), it was empirically established that after controlling for firm specific characteristics, there was strong positive impact of Chief Executive Officers (CEOs) having commitment to risk appetite on firm volatility. While the CEO's age indicated significant and positive relation on the measures of firms' volatility, the CEO's job tenure and level of education indicated a significant negative statistical relation with both the total and idiosyncratic dimensions of firm volatility.

Using a sample listed firms on the Nigerian Stock Exchange (NSE) between 2008 and 2013, Abdul Malik & Ahmad (2017) established evidence that external auditors tolerated more accrual earnings management practices and lesser real earnings management practices in firms that were more politically connected and also complimentary association between abnormal earnings management and real earnings management practices amongst the politically-inclined corporate firms under investigation. Gontarek &Belghitar (2018b) investigated the impact of risk governance practices among the US Bank Holding Companies (BHCs) against the background of heightened risk governance standards since the global financial crisis of 2008-2009. The study found empirical evidence that the risk appetite practices in the boardroom level yielded positive and significant enhancement in headline organisational performance and diminished tail risk metrics thereby validating the effectiveness of risk appetite as an important dimension of the risk governance system. A related empirical study by Nazari, Basati&Jamshidinavid (2017) investigated the statistical relationship of risk appetite on financial performance as influenced by institutional ownership structure from a sample of 165 firms quoted on the Tehran Stock Exchange for the operating period 2012-2016. It was established empirically that there was a significant positive statistical relationship between organisational risk appetite and performance. Rittenberg and Martens (2012) posit that risk appetite as a dimension of risk governance system formed an essential part of an entity's strategies for the attainment of objectives. The board of directors must provide active and robust oversight over the risk-taking activities of the organisation and exact strict accountability of the executive management for complying with the risk appetite framework of the entity (Gontarek &Belghitar, 2018).

The mixed results on the relationship between risk governance mechanisms and organisational outcomes generally and financial reporting quality in particular may be due to methodological flaws in the literature. Also, the concept of Risk Governance (RG) and Enterprise Risk Management (ERM) is multi-dimensional and vague (Bromiley et. al., 2015) and bedeviled by measurement challenges, differences owing to the type of industry and study time variations (Anton, 2018). Deloitte (2014a) observed that the concept of financial reporting quality is multifaceted and subject to diverse accounting measures by the various stakeholders (Wardhani et. al, 2015) and with different dimensions and the differences in cultural orientations in various countries has hampered efforts towards the harmonization and convergence of accounting and auditing practices (Hearth &Albarqi, 2017). However, as posited by Ellul (2015) that the use of traditional corporate governance model per se would not be effective in curbing excessive risk-taking but consideration should be on enthroning a strong and reliable risk management initiative to mitigate against adverse risk exposures. Alix (2012) posited that effective combination of risk appetite with a robust risk culture, risk structures and incentives can engender enhanced organisational performances. Therefore, it hypothesized that:

H_{O3}: Risk appetite has no significant effect on the quality of financial reporting of Nigerian Nonfinancial Firms

3. Methodology, Models and Variables Measurement

Ex-post facto research design is adopted for the purpose of this study. This design is suitable because the data to be extracted were not meant for the purpose of this research but for other purposes. In addition, considering the approach of the research- quantitative, any element of quasi-experimental research design is suitable of which expo-facto is one of them. The study population consists of all the 74 listed non-financial firms that are active on the Nigerian Stock Exchange as at 31st December, 2019 and whose data for the period of the study 2010-2019. The sample is the total population for the study using census sampling technique. Secondary source of data was used and data extracted from the annual report and accounts of selected firms of the 10 years period. Longitudinal Balanced Panel Multiple regression (two stage least square) was used as a technique of data analysis for the study. The justification for this technique is that it has the ability to test the statistical association between two or more variables and allows for the prediction of the expected outcome. However, effort is being made to ensure the validity, reliability and robustness of the statistical results. The panel attributes of cross-sectional and time series pose challenges with regard regression; for instance, the sample firms exhibit many similarities and dissimilarities, which usually cause cross-sectional dependence and heterogeneity, hence distort estimation. In view of this, the study checks for the statistical problems of normal distribution of the data, heteroscedasticity and collinearity. Shapiro-Wilk

(W) test for normal data is being employed to check whether the variables of the study came from a normally distributed population.

3.1 Variables and Measurements

The proxy for financial reporting quality in this study is Real Activities Manipulation (RAM) measured using the improved Roychowdhury (2006) model of abnormal cash flow by (Srivastava, 2019).Measurement errors in empirical proxies, if randomly distributed, should merely reduce the power but not bias the results of the tests of the hypotheses. However, measurement errors in three of the four real earnings management proxies are not randomly distributed. They display cohort patterns and are manifestations of competitive strategy. This systematic measurement error could cause spurious correlations in any hypothesis test involving a firm characteristic that is driven by firm's competitive strategy. Researchers can therefore document spurious correlations between earnings management and that strategy-driven characteristic and these are the critics of the original measure obtained from Roychowdhury (2006) models by (Srivastava, 2019).

Furthermore, to addressed the critics and improve the measure of Real Activities Manipulation (RAM), (Srivastava 2019) revised the original measure of Roychowdhury (2006) model into three levels. Revised measure 1 is calculated from the original measure after controlling for size, past profitability and growth (SPG) and revised measure 2 is calculated after controlling for forward revenues, in addition to SPG. While Revised measure 3 is calculated after controlling for lagged value, in addition to SPG and forward revenues. This is the improvement of the mostly used measure of RAM by Roychowdhury (2006) model of (Srivastava, 2019), which is adopted in this study.

Residuals of Roychowdhury (2006) model of abnormal cash flow:

$CFO_t/TA_{t-1} = \alpha_o + \alpha_1 1/TA_{t-1} + \alpha_2 SL_t/TA_{t-1} + \Delta SL_t/TA_{t-1} + \mu_t.$ ………………………….. i

Where:

CFO_t = cash flow from operations of present year

$\alpha^*(1/TA_{t-1})$ = scaled intercept

TA_{t-1} = total assets of previous year

α_o = intercept

α_1, - α_2,= parameters for estimating normal cash flow

SL_t = sales at present year

ΔSL_t = change in sales

μ_t = residuals

To improve the Roychowdhury (2006) model of abnormal cash flow, Srivastava (2019) proposed a sequence of corrective steps to mitigate these possible errors by including the widely accepted proxies for a firm's opportunity set of size, past profitability, and growth in the first-stage model. Secondly, he includes future revenues in the model, because firms spend on intangibles not only to produce current revenues but also to secure future benefits. Third, he controls for the firm's own past expenses to identify deviations from the firm's behavior in prior years. Hence, variables were added to mitigate possible errors and avoid spurious and misleading results. This therefore provided justification of adopting the new model by Srivastava (2019) of measuring RAM in this study.

Consequently, the improved model by Srivastava (2019) is presented and specified as follows;

$PC_{it} = \alpha_1 + \alpha_2 \text{ x } 1/Ta_{it-1} + \alpha_3 \text{ x} SL_{it}/TA_{it-1} + \alpha_4 \text{ x } \Delta SL_{it}/TA_{it-1} + \alpha_5 \text{ x } \Delta SL_{it}/TA_{it-1} + \alpha_6 \text{ x } LogMV_{it} + \alpha_7 \text{ x } LogROA_{it} + \alpha_8 \text{ x } M/B_{it} + \alpha_9 \text{x} SL_{it+1}/TA_{it-1} + \alpha_{10} \text{ x } ProductionCost_{it-1} + \mu_{t.}$ -------------- ii

Where:

PC_{it}= Production Cost of present year

$\alpha*(1/TA_{it-1})$ = scaled intercept of previous year

TA_{it-1} = total assets of previous year

α_1 - α_{10}= parameters for estimating coefficient

SL = sales at present year

ΔSL = hange in sales

MV = Market Value

ROA = Return on Assets

μ_t = residuals

The independent variable is risk governance which is triggered by the exploratory study by Gontarek (2016) which suggests the integration of risk structures, culture and appetite as important dimensions of risk governance but the measurements of the variables of the study are motivated by relevant empirical studies in the risk management literature. Gontarek &Belghitar (2018) stressed that risk governance variables relate to the effectiveness and vigour of the internal monitoring mechanism. Therefore, the risk governance variables used in this study are Risk Governance Structure (RGS) comprising of (Board Risk Management Committee, Audit Committee and Internal Audit Function), the Risk Culture (RC) and the Risk Appetite (RA).

Some empirical studies have employed the announcement for appointment of CROs, or the disclosures of ERM activities as surrogates for the adoption of ERM and others used surveys approach to understand the stage for the adoption of integrated risk management practices (Viscelli et. al. 2016). Disclosures in the firm's audit reports serve as evidence for the presence of RMC (Subramaniam, McManus & Zhang,2009). Following the used by Iselin (2019), we identify the formation and existence of BRMC by inspecting through Proxy Statements to establish whether there is a member of a risk committee of the board as a stand-alone risk committee as opposed to an audit and risk committee of the board. Board Risk Management Committee (BRMC) is measured by the proportion of Board Risk Management Committee members on the board.

The existence of Audit Committee (AC) is a statutory requirement under the Nigerian Laws and also a compliance governance requirement under the Nigerian Codes of Corporate Governance regulations. For instance, Section 359 (3) and (4) of the Companies and Allied Matters Act 2004 Laws of the Federation of Nigeria made it mandatory for the establishment of the Audit Committee. While both the SEC's CGC 2003 FRCN 2018 NCCG stipulates that in addition to its assigned statutory duties, the AC should help in the oversight to ensure the integrity of the firm's financial statements. Audit Committee is measured using Audit Committee Governance Score (ACGS) derived from six audit committee characteristics: audit committee size, audit committee independence, audit committee meetings, audit committee financial expertise, audit committee diversity and audit committee meeting attendance. To develop the summary measure, dichotomous measures of the six audit committee governance characteristics for each sample firm, with a value of 1 representing compliance with code of corporate governance and 0 otherwise is used modifying (Hassan, 2012 & Hassan and Bello, 2013). Therefore, this can be econometrically presented as follows:

$RGS_{it}=\alpha+\beta_1 BRMC_{it}+\beta_2 AC_{it}+\beta_3 IAF_{it}$ ……………………………………………… iii

For the risk culture aspect of risk governance, following the work of Fritz-Morgenthal et. al. (2015) who developed risk culture assessment model consisting mutually subsisting Risk Culture Indicators (RCIs). The RCIs are manually obtained and evaluated from the publicly available annual reports and other relevant corporate disclosures duly published by the non-financial institutions under investigation. The risk culture assessment model developed by Fritz-Morgenthal et. al. (2015) for the measurement of the risk culture dimension of risk governance is adopted in this study. The assessment of the Risk Culture Indicators (RCIs) presents the extent of risk culture incidence in the sampled firms comprising nine subcategories namely regulatory requirements, business strategy, governance, portfolio, employees, risk strategy, reputation, other effects and cultural indicators. The indicators is assessed and evaluated using;

$RCS = \alpha + \sum i = 1\ n\ \beta i\ XiST + \varepsilon RCS$ …………………………………………………iv

Where: RCS denotes the risk culture score, X1ST, are the stress test indicators, α, $\beta 1$, ... , βn are the coefficients and εRCS is a random variable describing those contributions to the risk culture score that are not determined by the stress test indicators.

Furthermore, the risk appetite statement measurement approached by Gontarek &Belghitar (2018) and Gontarek (2017) for the measurement of Risk Appetite Statements (RASs) as an important dimension of risk governance is also adopted. The articulation of risk appetite arrangements has been considered as headline factor assuming significant importance in emerging board-level risk oversight responsibility (Gontarek, 2017). The existence of an articulated Risk Appetite Statements disclosed in the financial statements of the sampled firms is dichotomized as 1 if board-approved Risk Appetite arrangements exist and 0 if otherwise for each financial year for the study.

A robust risk governance framework is a foundation of governance and the use of a strong risk structure supported by well-articulated risk culture and appetites are essential pillars to support an entity in achieving its strategic objectives for which a major consideration is the ability of the organisation to develop and sustain enterprise-wide risk governance system. Organisations with sound risk governance framework should have the ability to mitigate and manage the significant risks confronting it, enhance value optimisation and the value of accounting information to the stakeholders.

Consequently, the parsimonious model that text the hypotheses of this study is specified as follows:

$FRQ_{it}=\alpha+\beta_1 RGS_{it}+\beta_2 RC_{it}+\beta_3 RA_{it}+ \varepsilon_{it}$- - --------------------------- - -------- -- ------ v

Where: FRQ = Financial Reporting Quality, α= Intercept, β_1-β_3= parameters, i t= firm i in time t, RGS= Risk Governance Structure, RC= Risk Culture, RA= Risk Appetite, ε= error term.

4. Result and Discussions

The section delves into the presentation of data, analysis and interpretation of results relating to the association between risk governance and financial reporting quality of non-financial firms listed in Nigeria.

Correlation Matrix

The correlation matrix is expected to find out the association between the study's independent and dependent variables vis-à-vis the independent variables themselves. Therefore table 1 presents the study's correlation matrix.

Table 1: Correlation Matrix

Variabkes	**FRQ**	**RGS**	**RC**	**RA**	**T V**	**1/TV**
FRQ	1.000`					
RGS	-0.370	1.000			1.170	0.855
RC	-0.357	0.381	1.000		1.340	0.749
RA	0.395	-0.140	-0.377	1.000	1.170	0.858

Source: STATA Output, 2021

Table 1 above shows that there exists a negative correlation between the dependent variable and Risk Governance Structure (RGS) and Risk Culture (RC). It can be observed from the above table that financial reporting quality is correlated with RGS to the turn of 37% negatively. Similarly, the relationship between Risk Culture and financial reporting quality was also found to be negative as evidenced by the correlation value of -0.357 which represent 36%. On the other hand, the relationship between Risk Apatite and financial reporting quality was seen to be positive, this is revealed by the correlation value of 0.395 representing 40%. However, the relationships between the independent variables themselves were mostly negative and insignificant. This relationship indicated that multicollinearity will not be a problem to the study, however, to substantiate the claim, another multicollinearity diagnostic of tolerance value (TV) and variance inflation factor was conducted. The tolerance values and the variance inflation factor (VIF) are two good measures for checking multicollinearity between study's explanatory variables where all explanatory variables VIF are less than ten (10), it means there is absence of multicollinearity and the model is said to fit. On the contrary multicolinearity is presumed to exist. Additional measure for checking the absence or presence of multicollinearity is the tolerance values. A tolerance value of 1 or above indicates the existence of multicollinearity, whereas tolerance values of less than 1.00 in all the variables observed suggests the nonexistence of multicollinearity (Cassey et.al., 1999; Neter et.al., 1996).

4.2 Presentation and Interpretation of Regression Result

This table below shows the regression result of the endogenous variable (FRQ) and the exogenous variables of the study (RG, RC and RG). The presentation is followed by the analysis of the relationship and contribution of all the independent variables to the dependent variable of the study and also the cumulative analysis.

Table 2: Summary of Regression Result			
Variables	**Coefficients**	**t-value**	**p-value**
RG	-0.611	-8.350	0.000
RC	-0.164	-3.920	0.000
RA	0.430	9.250	0.000
Constant	0.082	3.760	0.000
F-Value			97.450
F- Sig			0.000
R2			0.271
Adj. R2			0.268
Het chi2			29.770
Het Sig			0.000
Hausman Chi2			1.910
Hausman Sig			0.000
LM test Chi			3.990
LM Sig			0.023
Source: STATA Output, 2021			

The cumulative association between the explanatory and explained variables is 0.271 reveals that the link between financial reporting quality and risk governance variables utilized in the study is 27% which is fairly good. This means that for any variations in risk governance of non-financial service firms in Nigeria, their financial reporting quality will be affected directly. The cumulative Adjusted R^2 (0.268) which is the multiple coefficients of determination shows the proportion of the total variation in the dependent variable explained by the independent variables jointly. Therefore, it indicates 26% of the total change in risk governance of non-financial service firms listed in Nigeria is caused by the cumulative contribution of risk governance (risk governance structure, risk culture and risk apatite). This shows that the study's model is fitted and robust.

The regression result in table 2 indicated that the coefficient of RG with negative value of -0.611 and a t-value of -8.350. This is accompanied by a probability value of 0.000 ($p<0.000$) which is significant at 1%. Thus, the null hypothesis (H_1) that risk governance structure has no significant effect on financial reporting quality is hereby rejected. This implies that RG is good for explaining the financial reporting quality of non-financial service firms listed in Nigeria.

Similarly, the regression results show a negative association between risk culture (RC) and financial reporting quality (FRQ), which is significant ($p<.01$). Thus, the hypothesis two (H_2) of the study which says risk culture (RC) has no significance influence on financial reporting quality (FRQ) of non-financial service firms is rejected. This suggests that an appropriate risk culture improves the quality of earnings which invariably improves financial reporting quality. This result was proved by the coefficient value of -0.164 and a t-value of -3.90 with a p-value of 0.000.

The regression coefficient in respect of risk apatite (RA) stood at 0.430, which is statistically significant. This was revealed by a t-value of 9.250 and a probability value of 0.000 ($p<1$). Thus, hypothesis three of the study which states that risk apatite (RA) has no significant impact on financial reporting quality of non-financial service firms is hereby, rejected. This implies that where the risk apatite increases, the financial reporting quality of the selected firms decreases.

5. Conclusion and Recommendation

The study concludes that managers risk governance culture of non-financial service firms listed in Nigeria play an important role in improving the quality of financial reporting of non-financial service firms listed in Nigeria. Based on the findings of the study, the following recommendations are suggested to non-financial service firms listed in Nigeria on how to improve their financial reporting quality. That shareholder should consider adhering strictly with the provision of the corporate governance code while appointing board members so as to appoint members capable of monitoring firms risk investment by serving in board risk committee. Firm managers should also consider maintaining a good risk culture as it was found worthy in improving financial reporting quality of non-financial service firms listed in Nigeria.

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