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`Determinant of Financial Reporting Quality on Ethiopian Insurance Companies

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Abstract

This study intends to assess the determinants of financial reporting quality of Ethiopian insurances companies over a period of 2019/20-2023/24. Consequently, the study used document review of insurances' audited financial statements. The explanatory variables used in this study were board size, leverage, profitability (ROA), Liquidity and Auditor change. In the study bank age and firm size were used as control variables. In this study fourteen Insurance companies were selected from a total population of insurances companies to accomplish a study for the period of six years (2019/20-2023/24) with the total of 95 observations. To test the hypotheses, the study adopted the quantitative research approach. The secondary data were analyzed using descriptive statistics, correlation matrix and linear regression analysis and data from document reviews were interpreted qualitatively. The study used panel data and random regression model to analyze the determinant of financial reporting quality of Ethiopian insurance companies. The study found that profitability ratio has positive and significant effect on financial reporting quality. While, auditor changes, board size, leverage and liquidity were found to be insignificant effect on financial reporting quality of Ethiopian insurance companies.

Keywords: *Auditors Changes, Board Size, Ethiopian Insurance Companies, Firm Size, Financial Reporting Quality, Liquidity and Profitability Ratio.*

Introduction

High-quality financial reporting is crucial for national economic growth and stability, as it helps stakeholders, including investors and creditors, make informed decisions, thereby increasing market efficiency [13] Financial institutions like insurance companies are particularly vital, facilitating economic transactions through savings, risk transfer, and financial intermediation [10, 6] Poor financial reporting quality can negatively impact business performance and economic decisions [16], as it can encourage managers to engage in non-value-adding activities. Conversely, high-quality financial reporting can lead to better contracts, improved investment efficiency, and reduced wasteful spending [12]. The primary goal of financial reporting is to provide useful, high-quality information for economic decision-making [2].

Measuring financial reporting quality is complex and cannot be done directly, often requiring the use of models and proxies. Common dimensions include Accrual-Based Models, Accounting Conservatism, and Earnings Management. For this study, the accrual-based model developed by [25] will be used to measure the financial reporting quality of Ethiopian insurance companies. Although the importance of financial reporting quality is recognized, its determinants have often been overlooked in empirical studies. In Ethiopia, the government has been taking steps to

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improve financial reporting standards, based on recommendations from studies like the Observance of Standards and Codes [18], by establishing committees and drafting new proclamations. While some studies, by [9] have examined the determinants of financial reporting quality in manufacturing and private banks, they do not cover the insurance sector. Therefore, this research aims to fill that gap by focusing specifically on Ethiopian insurance companies.

In today's dynamic financial landscape, the lack of quality financial reports presents a significant challenge that can undermine a company's economic viability. The insurance sector, a cornerstone of both developed and developing economies, plays a critical role in fostering growth, optimizing resource allocation, and mitigating financial risks [36]. Given this vital function, ensuring the quality and timeliness of their financial reporting is paramount.

While numerous studies have explored the determinants of financial reporting quality across the globe [32, 3] and even within Ethiopia's manufacturing and banking sectors [29], a noticeable research gap exists concerning the nation's insurance companies. Although some research has touched upon profitability determinants within this sector [8, 27] a comprehensive investigation into the factors that directly influence the quality of financial reporting for Ethiopian insurance firms remains largely unaddressed. This study aims to fill this critical void, providing much-needed insight into the relationship between key determinants and the quality of financial reporting within this crucial industry.

Empirical Generative Hypothesis:

The general objective of the study is to examine the determinants of financial reporting quality of insurance companies in Ethiopia to achieve the objectives of the study concerning the determinants of financial reporting quality of Ethiopian insurance companies, the following hypotheses were developed from different previous works.

Financial Reporting Quality vs. Profitability

The relationship between profitability and the quality of financial reporting is a subject of debate in academic literature. While some studies, such as those by [30] suggest that profitability does not determine reporting quality, others, including [4], argue the opposite. Research by [37] indicates a positive relationship, viewing financial reporting quality as a determinant of profitability. However, a study on the Ghanaian market by [7] found a negative relationship, suggesting that higher profitability might not always correlate with transparent financial disclosures.

H1: Profitability has a positive significant effect on Financial Reporting Quality of Ethiopian Insurance Companies

Financial Reporting Quality vs. Age of the Insurance Company

A firm's age is often linked to its reporting practices. [22] found that older, more established companies tend to disclose more information due to their well-developed reporting systems, while newer companies may increase disclosure to build investor confidence. This is supported by [5] who argued that older firms enhance their financial reporting practices over time to improve their reputation.

H2: Age of the insurance company has a positive significant effect on Financial Reporting Quality of Ethiopian insurance companies

Financial Reporting Quality vs. Leverage

Agency Theory, as described by [15] suggests that highly leveraged companies have a greater incentive to increase disclosure to satisfy creditors. While some studies, like those by [11] found a positive link between leverage

and reporting quality, others have found mixed or negative results [39] The latter studies suggest that highly leveraged firms might disclose more private information directly to their creditors rather than in their public annual reports.

H3: Leverage has a positive significant effect on Financial Reporting Quality of Ethiopian Insurance Companies.

Financial Reporting Quality vs. Liquidity

The relationship between liquidity and financial reporting quality is also explored in academic research. [8] and [17] found a positive association, suggesting that higher liquidity is linked to better financial reporting quality. This is because improved information quality can reduce liquidity risk and lower the cost of capital, as [11] noted.

H4: Liquidity has a positive significant effect on financial reporting quality of Ethiopian Insurance Companies.

Financial Reporting Quality vs. Firm Size

Firm size, often measured by the logarithm of total assets, is a common determinant of economic and financial performance. While larger firms are often expected to have a positive effect on financial performance [12, 31], its effect on financial reporting quality remains a topic of uncertainty and ongoing research.

H5: Firm size has a positive significant effect on financial reporting quality of Ethiopian Insurance Companies

Financial Reporting Quality vs. Auditor Change

The impact of auditor changes on financial reporting quality is a complex issue. While some studies show that internal audit functions improve reporting quality by preventing fraud and reducing earnings management [17] other research presents a different view. [19] found that a change in auditors is positively related to earnings management, suggesting that such changes may be motivated by an attempt to manipulate financial results. Additionally, [25] found that financial reporting improprieties often occur early in a new auditor-client relationship.

H6: Auditor change has a positive significant effect on financial reporting quality of Ethiopian Insurance Companies

Literature Review

Theoretical review

This section focuses on the definition and concepts of important terminologies, theories and creating an inclusive theoretical framework for the study. The next parts of this chapter will present definition of financial reporting quality including its objectives and few related theories to understanding determinants of financial reporting quality

Defining Financial reporting quality

According to [34], financial reporting is a process of reporting financial activities of business on a formal way. It has been considered as an essential resource for any market participant. It also reduces the mystery and the conflict in opinion between all interested users such as managers, investors, regulatory agencies, society and other stakeholders. Everyone participates in this process (in financial reporting quality process), even each operation related to this process should be submitted carefully, especially the disclosure process, all transactions, the accounting policies and all judgments and opinions made by the staff involved in this process.

The value of financial accounting is generally determined by its quality [15] The central concept of financial accounting quality is that some accounting information is better and more reliable than other accounting information in relation to its characteristic of communicating what it purports to

communicate. That is why, accounting quality is of great interest to several types of users involved in the financial reporting chain. The term of financial accounting quality has no single, widely accepted definition.

The term financial accounting quality defines as the precision with which financial reports convey information about the firm's operations, in particular its cash flows, in order to inform the equity investors [12]. In study conducted by [39], financial reporting quality is defined as the extent to which the financial statements provide true and fair information about the underlying performance and financial position. The term reporting quality refers to the extent to which financial reports of a company communicate its underlying economic state and its performance during the period of measurement [29]. Anyway, a commonly accepted definition is provided by many scholars including, [7], who argue that quality financial reporting is full and transparent financial information that is not designed to obfuscate or mislead users.

However, financial reporting quality is a broader concept that not only refers to financial information, but also to disclosures, and other non-financial information useful for decision making included in the report [20]. Therefore, in the ED both the FASB and the IASB (2008) explicitly express their desirability of constructing a comprehensive measurement tool to assess the quality of financial reporting considering all dimensions of decision usefulness. Hence, this measurement tool considers all the qualitative characteristics because these characteristics determine the useful decision of financial reporting information (IASB, 2008).

In 2002, the [13, 27, 30] showed their commitment towards developing a common set of high-quality accounting standards, which could be used worldwide. As a consequence of the joint project to converge the more principles-based IFRS and the more rules-based US GAAP, both boards agreed to develop new joint Conceptual Framework, which includes the objectives of financial reporting and the underlying qualitative characteristics on which accounting standards ought to be based. In May 2008, the FASB and the IASB therefore published an exposure draft of 'An improved Conceptual Framework for Financial Reporting' [33, 30]. This Conceptual Framework represents the foundations of the accounting standards. "The secure [9]. Accounting information systems maintain and produce the data (e.g. financial statements containing information about accounts and their balances) used by organizations to plan, evaluate and diagnose operations and financial position [7], therefore, the aim of the regulators should be to make a system (accounting) that offers maximal benefits at lowest possible costs.

According to [30], the objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decision about providing resources to the entity. These users of financial information want to make decisions about buying or selling both equity and debt instruments, they want to know how much interest or dividend to expect, they also want to know when to expect the payment of these interest and dividends. Application of objectives and qualitative characteristics should lead to high-quality accounting standards, which in turn should lead to high-quality financial reporting information that is useful for decision making" [35].

As [28] reported that, quality of financial report guarantees and enforces the company to present good and accurate information, which in turn reduces the mystery and the conflict in information provided for both shareholders and stakeholders and other market participants interested in this report. The integrity and reliability of data produced by organizational information systems are critical, not just for the

production of reliable financial reports, but also for overall business success [28].

The important attributes for effective financial management include- access to relevant information; use of that information to enhance management standards; and assurance that the information is accurate, relevant and Moreover, financial reporting quality requires companies to voluntarily expand the scope and quality of the information they report, to ensure that market participants are fully informed in order to make well-grounded decisions on investment, credit, etc. This high quality information facilitates greater transparency and this greater transparency reduces the information asymmetries and satisfies investors and stakeholders' needs [30].

Existing Theories on Financial Reporting Qualities

Agency Theory

Agency Theory explores the relationship between a company's management (the agent) and its shareholders (the principal). According to [37], this relationship can lead to conflicts of interest because managers may prioritize their personal gains over maximizing shareholder value.

To attract and retain investment, companies are motivated to provide high-quality, truthful financial reports that align with their actual condition [23].

Legitimacy Theory

Legitimacy Theory suggests that companies operate under a "social contract" and must align their values and actions with those of society to ensure their continued existence. As [13] states, an organization's "license to operate" depends on this alignment. Companies use social and environmental disclosures to demonstrate their commitment to this contract, fulfilling their social responsibility and gaining social acceptance [8]. According to [33], legitimacy can be pragmatic (based on self-interest), moral (based on moral approval), or cognitive (taken for granted). The theory posits that the need for legitimacy and the resulting disclosures are influenced by the level of social pressure a company faces [18]. In an accounting context, it explains how and why managers communicate certain information to external audiences [15].

Signaling Theory

Signaling Theory, pioneered by [11], addresses the issue of information asymmetry in markets. It posits that one party with superior information (the signaler) can credibly communicate its quality to another party (the receiver) through a costly action. For example, a high-quality firm might signal its strength through high debt or dividend payments, which low-quality firms cannot sustain [11]. As [18] explain, this signaling can lead to a separating equilibrium, where outsiders can distinguish between high- and low-quality firms, or a pooling equilibrium, where the signal is not effective. This theory's core concept, "quality," refers to an unobservable ability that can be signaled by observable actions, such as an individual's education or a firm's financial structure [36, 10].

Proprietary Costs Theory

Proprietary Costs Theory states that managers weigh the costs and benefits of disclosing information. They will choose not to disclose if the costs outweigh the benefits. These costs include not only the expense of preparing and distributing the information but also the risk of competitors gaining an advantage from the disclosed data [36]. While comparable financial statements can lower a firm's cost of capital [14], they can also expose proprietary information to competitors [18]. This theory suggests that competition within an industry incentivizes managers to use discretion in their financial reporting, which can reduce comparability [14].

Accounting Theory

Accounting Theory lacks a single, universally accepted definition, as highlighted by [31] However, it can be understood as a set of logical principles that serve as a framework for evaluating and developing new accounting practices. According to [12] accounting theories can be categorized into two main groups: normative (prescriptive) and positive (descriptive). Normative theories aim to provide a structure for improving existing practices, while positive theories seek to explain and predict the behavior of those who prepare and use financial reports.

Empirical Review

The existing literature is sated with studies undertaken internationally and locally on this phenomenon and the researcher attempt to review some of this study in line with the context of this study.

A study undertaken by [37] on Determinants of Financial Reporting Quality and Its Implications On the Financial Performance of State-Owned Enterprises, showed that Variable of the size of the board of directors did not have the significant influence on the quality of financial reporting in state-owned enterprises, meaning that there was no effect of increasing or decreasing the size of the board of directors to the quality of financial reporting.

According to [9] investigated the Determinants of Financial Reporting Quality: Evidence from Large Manufacturing Share Companies of Addis Ababa. The data were analyzed using Hausman Test. The finding of the study showed that liquidity, leverage and board composition has no any statistically significant impact on large manufacturing share company's financial reporting quality. He also found, audit firm size is the most dominant determinant of financial reporting quality and very strong positive correlation between AUD and the dependent variable.

According to [25] investigated on impact of internal corporate governance on the timeliness of generating financial reports of Jordanian firms. The data were collected from a two-year period of 2011 and 2012 and the multiple regression analysis was used to test the hypotheses. The findings of the study support the agency theory; hence the results of the relationships between the corporate governance mechanisms, finding that the audit report lag (ARL) and management report lag (MRL) were generally significant. Consequently, the results of the studies revealed that corporate governance mechanisms affect the timeliness generation of financial reports.

According to [4] appraised the relationship between corporate ownership structure and financial reporting quality among Deposit Money Banks in Nigeria. The study analyzed whether a firm's ownership structure (measured with three variables: managerial ownership, foreign ownership and institutional ownership) improves the quality of the financial reporting or not. Whereas financial reporting quality is measured by modified Jones model, the researchers used discretionary accruals as a proxy for financial reporting quality. The data are extracted from a sample of all Deposit Money Banks listed on Nigerian Stock Exchange for nine years between 2005 and 2013, using Ordinary Least Square Regression technique as a tool of analysis for the study. The result showed that financial reporting quality is positively related to managerial ownership and relates negatively to institutional and foreign ownership. This result is consistent with the alignment of interest hypothesis that suggests that managers who own a significant portion of the equity in a firm have less incentive to manipulate reported accounting information. The study's result suggests that managerial ownership improves the quality of annual earnings by reducing the levels of financial reporting manipulation.

The study conducted by [29, 20] on Determinants of Financial Reporting Quality: Evidence from Ethiopian Private Banks shows that; profitability, liquidity, non-performing

loan and bank age has significant impact on the financial reporting quality of Ethiopian private banks. Moreover, the author in her study revealed that liquidity has statistically significant and positive effect on financial reporting quality of Ethiopian private banks. While, in this the author find that financial leverage as measured by ratio of total liabilities to total assets has no statistically significant positive impact on financial reporting quality of private banks in Ethiopia.

Acknowledging the Research Gap: Why This Study Matters

Prior research on the determinants of financial reporting quality has yielded inconsistent findings and, in Ethiopia, has been primarily limited to the manufacturing sector [36, 23] and private banks [13]. This leaves a significant gap in the literature regarding the insurance industry as a critical component of the nation's financial landscape.

To the best of our knowledge, no comprehensive study has focused on the factors influencing financial reporting quality specifically within Ethiopian insurance companies. This research aims to fill this void by investigating the key determinants unique to this sector, providing crucial insights for regulators, investors, and other stakeholders. By addressing this underexplored area, this study will contribute valuable knowledge to the field and offer a more complete understanding of financial transparency in Ethiopia's growing economy.

Research Methodology

This research on the determinants of financial reporting quality in Ethiopian insurance companies uses a quantitative research approach with an explanatory research design. The study aims to assess how various factors such as profitability, firm size, auditor's change, company age, and liquidity influence financial reporting quality. The researcher will use secondary data from the audited financial reports of Ethiopian insurance companies, specifically for the period of 2019/20 to 2023/24. The population for the study will be Ethiopian insurance companies that have at least eight years of audited financial reports. The data will be analyzed using descriptive statistic, correlation analysis, and multiple linear regression analysis(OLS) with the help of the statistical software "EVIEWS-8" to determine the significant and influential variables.

Definition of Variables and Model Specification:

1. **Dependent variable**

Assessing the quality of financial reporting requires a broad range of measurements using models, proxies, qualitative characteristics, and other elements of financial reports. In the literature, three different dimensions of financial reporting quality are frequently used: Accrual-Based Models, Accounting Conservatism, and Earnings Managements (abnormal accrual). Many approaches have been used to measure and assess financial reporting quality, and new approaches are still being developed. For this study the accrual based model developed by [24] will be used to measures the financial reporting qualities of Ethiopian insurance companies.

According to [24] extend the idea on a practical measure of accrual and earnings quality. The model developed a way of combining [24] and obligations as they come due, without incurring unacceptable losses (CR) is measured by dividing current asset to current liability. It is the ability of the insurer to fulfill their immediate commitments to policyholders without having to increase profits on underwriting and investment activities and/or liquidate financial assets shows how efficiently companies generate profit and value for shareholders [27].

Liquidity measures the ability of insurance companies to fund increases in assets and meet generate income relative to its revenue,

operating costs, balance sheet assets, or shareholder's equity.

Jones model. They provide a new approach to estimate the quality of accruals, as an example which is related to earlier researches. The accruals quality and earnings process advocates that the size of estimation errors is related to business systematically. The modified model will add to the model of [24] the essential variables present in the model of Jones, as the annual revenue variation and the value of gross property, plant and equipment as proposed by [26].

The modified Dechow and Dichev's (2002) model is specified as:

$$\Delta WCit = \beta 0 + \beta 1 CFOit - 1 + \beta 2 CFOit + \beta 3 CFOit + 1 + \beta 4 \Delta REVit + \beta 5 PPEit + \varepsilon$$

Where:

- ΔWC is the change in working capital accruals or current accruals from the statement of cash flows,
- CFO denotes the cash flows from operating activities,
- ΔREV is change in revenue and PPE is property, plant and equipment.

2. Independent Variables

$$Liquidity\ ratio = Current \frac{Assets}{Current} Liabilities$$

Leverage; is measured as the ratio of total non-current liabilities to owners' equity and long-term liabilities. It refers to the use of debt (borrowed funds) to amplify returns from an investment or project. Companies use leverage to finance their assets instead of issuing stock to raise capital, companies can use debt to invest in business operations in an attempt to increase shareholder value. It includes debt to equity ratio and debt to total asset ratio [29].

$$Leverage\ Ratio = Total\ Debt / Total\ equity$$

The firm size*:* The size of a business affects its operations and financial transactions. The firm is described as the business unit or undertaking which owns the resources of the business, within the scope of its plant's arsenal, its controls and how it is been managed. There is no particular description for a particular firm.

Age the insurance company: measured age by the numbers of years plus one. Company age is therefore the number of years (plus one) elapsed since the year of the company's. We refer to this variable as the firm's listing age. We add one year to avoid ages of zero.

Auditor change: Auditor change is measured by dummy variable, 1 if auditor was changed in the year and 0 otherwise.

Model Specification

To assess the determinants of financial reporting quality in insurance companies in Ethiopia, the following general empirical research model will be taken from empirical studies.

$$FRQit = \beta 0 + \beta 1(PRit) + \beta 2(FSit) + \beta 3(CGit) + \beta 4(Acit) + \beta 5(LVit) + \beta 6(LQit) + \beta 7(BSit) + \varepsilon i$$

Where;

- FRQ it is financial reporting quality of insurance companies i at time t
- β0 is intercept
- PRit is profitability of insurance companies i at time t
- FSit is firm size of insurance companies i at time t
- BSit is board size of insurance companies i at time t
- CGit is corporate governance of insurance companies i at time t
- Ac it is change of auditor of insurance companies i at time t
- LVit is leverage size of insurance companies i at time t
- β 1- β7 are Coefficients parameters
- εi is error term

Data Results and Analysis

Descriptive Statistics

This section shall present descriptive statistics of independent and dependent Variables obtained in the study. The independent variable included in the study are return on asset, liquidity ratio, leverage ratio, board size and audit change and the dependent variable included in the study is financial reporting quality (FRQ) and firm size and firm age are constant variable. The number of observation to explain the dependent and independent variables was 96 (16 Ethiopian insurance company for the period from (of 2019/20-2023/24). The descriptive statistics include mean, median, maximum, minimum and standard deviation of variables included in the study period.

Table 1. Descriptive statistics

	LOGFRQ	ROA	LQ	LE	LOGFS	LOGBS	AC	LOGFA
Mean	-7.939596	0.219656	1.226035	1.746897	8.738489	0.934337	0.250000	1.051570
Median	-8.012530	0.076510	1.218406	1.705289	8.776850	0.954243	0.000000	1.204120
Maximum	-6.589628	1.838440	2.097464	3.557559	10.00415	1.000000	1.000000	1.633468
Minimum	-8.73418	-1.4837	0.2675	0.620354	7.731425	0.698970	0.000000	0.000000
Std. Dev.	0.481036	0.443697	0.274170	0.610678	0.428384	0.077131	0.435286	0.358885
Skewness	0.599635	1.284225	-0.019854	0.435763	0.158334	1.776401	1.154701	-0.752008
Kurtosis	2.759415	7.567232	4.630533	2.765564	3.160192	5.694276	2.333333	3.114993
Jarque-Bera	5.984511	109.8262	10.64086	3.258074	0.503759	79.52612	23.11111	9.101150
Probability	0.050174	0.000000	0.004891	0.196118	0.777338	0.000000	0.000010	0
Sum	-762.2012	21.08694	117.6993	167.7021	838.8949	89.69639	24.00000	100.9507
Sum Sq. Dev.	21.98263	18.70240	7.141061	35.42817	17.43374	0.565171	18.00000	12.23583
Observations	96	96	96	96	96	96	96	96

Source: *Output of E-views 8*

The result shown in the above table 1 indicates that financial reporting quality, have a mean value of -7.9395 and standard deviation of 0.4810. This indicates that the Ethiopian insurance companies have abnormal accrual, on average, with log value of -7.9395 and the minimum and maximum value of the financial reporting quality are -8.7341 and -6.5896 respectively. This implies that the sampled Ethiopian insurance company with -6.5896 have the highest financial reporting quality on the contrary insurance company with -8.7341have a minimum financial reporting quality. The finding showed that the Ethiopian insurance companies have on average negative log 7.9395 of abnormal Accrual, financial reporting quality and a 0.4810 is its standard deviation.

The maximum and minimum value of the independent variable return on asset is 1.8384 and 1.4837 respectively. This result showed that there are insurance companies with the maximum value of 1.8384 and insurance companies with minimum value of 1.4837, and a standard deviation of 0.4436 from its mean value with 0.2196. The finding implies that the Ethiopian insurance company generates the average value of 21.96% of return for each asset in the study period.

The next independent variables which explain dependent variable is liquidity ratio. Its mean, maximum, minimum, and standard deviation are 1.2260, 2.0974, 0.2675 and 0.2741 respectively. This implies that the insurance companies used on average 12.26% of current asset to cover their current liability. According to this Ethiopian insurance companies have ability to pay its short term liabilities during the study period.

The result as shown on the above table 1 indicates that the other explanatory variable of the study is leverage ratio, which has a minimum value and maximum value of 0.6203 and 3.5575 respectively. The result showed that there are Ethiopian insurance companies with the maximum value of 3.5575 and a minimum value 0.6203 and the standard deviation of 0.6106 from its mean value with 1.7468. This implies that on average Ethiopian insurance companies finance their business around 17.5% from long term loan.

The study, as shown on the above table 1 displays the board size of Ethiopian insurance company with the maximum, minimum, mean and Standard deviation value of 1.0, 0.6989, 0.9343 and 0.0771 respectively. The finding displays that there are Ethiopian insurance companies having a board size with a maximum and a minimum value of 1 and 0.6989. On the other hand, Ethiopian insurance company having, the average value of 93.43% of board size.

The result showed on the above table 1 presents that the other determinants of Ethiopia insurance company financial reporting quality is audit change and its maximum, minimum, mean and standard deviation value of 1, 0, 0.25 0.4352 respectively. Based on this finding the average value of audit change in Ethiopian selected insurance company has accounted 25% of audit change. This implies that existence of audit change in Ethiopian insurance company was relatively very low during the review period.

As shown in the table 1 above indicates that constant variable of firm size included in this study. It is computed by the log of total asset and its maximum, minimum, standard deviation and the mean value of 10.0041, 7.7314, 0.4283 and 8.7384 respectively. The result showed that there are insurance companies in Ethiopia which has a maximum and minimum value of 10.0041 and 7.7314 of asset size. In addition to this result, Ethiopian insurance has an average value of 87.38% of asset size on average.

The second constant variable included in this study is firm age. This is computed by log of counting the number of year of establishment of the Ethiopian insurance company and it has a maximum, minimum, standard deviation and mean value of 1.6334, 0.00, 0.3588 and 1.0515 respectively. This implies that there is Ethiopian insurance company which has a maximum and minimum value of 1.6334 and 0. Moreover, the finding showed that the Ethiopian insurance company has 10.51 % of age on average.

Correlation Analysis

Correlation is defined as the linear association between the dependent and independent variables values of the correlation coefficient are always between positive one, negative one and zero. The correlation coefficient of positive one indicates that there is a perfect positive association between the dependent and independent variables; while a correlation coefficient of negative one indicates that there is a perfect negative association between the dependent and independent variables. However, a correlation coefficient of zero indicates that there is no linear relationship between the independent and dependent variables. As shown in the above table 2 presents the relationship between the explanatory variables and financial reporting quality in the study. As displayed in Table 2 the explanatory variables, return on asset (roa), liquidity (lq), leverage, (le), firm size, (fs) and age of the firm (fa) are correlated with dependent variable financial reporting quality (frq).

Table 2. Correlation Analysis

	LOGFRQ	ROA	LQ	LE	LOGFS	LOGBS	AC	LOGFA
LOGFRQ	1	0.5559468780985377	0.1596488280625333	-0.2190696878821777	-0.4263689320194975	-0.1258687370277614	0.008662204698912999	-0.2648936009250558
ROA	0.5559468780985377	1	-0.01501853513995618	-0.01235868043330438	0.02123497290085151	-0.1224395100983974	-0.004495775147436426	0.008498796600308905
LQ	0.1596488280625333	-0.01501853513995618	1	-0.4710201470563446	-0.2608062336430725	-0.1456317985764041	-0.025451762583754 95	-0.2443108255884991
LE	-0.2190696878821777	-0.01235868043330438	-0.4710201470563446	1	0.129511577280483	0.0727812307081738	0.1279446672009843	-0.0369636743245216
LOGFS	-0.4263689320194975	0.0212349729085151	-0.2608062336430725	0.129511577280483	1	0.2474015929881311	0.003146820581105108	0.7750790153003595
LOGBS	-0.1258687370277614	-0.1224395100983974	-0.1456317985764041	0.0727812307081738	0.2474015929881311	1	0.1026338642859676	-0.0291912962348667 6
AC	0.008662204698912999	-0.004495775147436426	-0.0254517625837549 5	0.1279446672009843	0.003146820581105108	0.1026338642859676	1	0.0413478728870156 7
LOGFA	-0.2648936009250558	0.008498796600308905	-0.2443108255884991	-0.0369636743245216	0.7750790153003595	-0.0291912962348667 6	0.0413478728870156 7	1

As shown on the above table 2 the correlation coefficient of the independent variable return on asset, has a correlation coefficient of 0.5594. This indicates that return on asset has perfect positive correlation with financial reporting quality. Accordingly, the numerical value provides the evidence that Ethiopian insurance companies are profitable during the study period. The correlation coefficient of liquidity ratio is (0.1596). This indicates that liquidity has a perfect positive association with that of the financial reporting quality. This suggests that Ethiopian insurance company has ability to pay its current liability. The correlation coefficient of leverage indicates that the value of (-0.2190). This implies that leverage has a perfect negative association with that of financial reporting quality. The correlation coefficient of firm size is a negative (-0.4263). Accordingly, there is a perfect negative relationship between firm size and financial reporting quality in Ethiopian insurance company.

The correlation coefficient of board size showed that the value of a negative (-0.1258). This implies that there is a perfect negative correlation among the independent variable board size and the dependent variable financial reporting quality. The correlation coefficient of audit change indicates the value of 0.0086. This displays that there is a perfect positive association between audit change and financial reporting quality. The correlation coefficient of firm age indicates that a value of negative (-0.2648) this displays that there is a perfect

negative correlation between firm age and financial reporting quality.

Normality Test

Ho: Residuals are normally distributed

H1: Residuals are not normally distributed

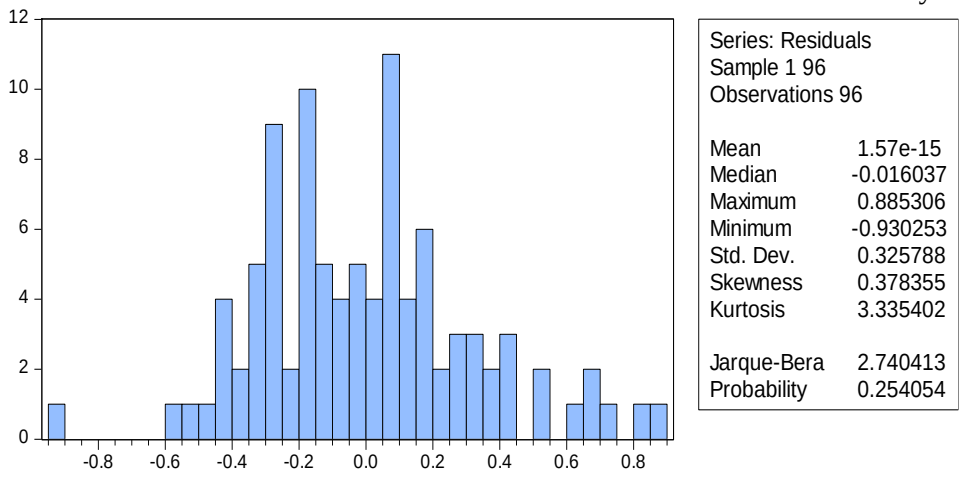

Figure 1. Normality Test

The result in the above figure 1 indicates that there is no the problem of normality. Since the p-value of 0.25 is greater than 0.05 implies residuals are normally distributed as a result the researcher decide to accept the null hypothesis during the study period.

Hetrosckedasticity

Ho: The disturbance term is normally distributed

H1: The disturbance term is not normally distributed

Table 3. Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.179843	Prob. F(7,88)	0.9888
Obs*R-squared	1.353974	Prob. Chi-Square(7)	0.9869
Scaled explained SS	1.328509	Prob. Chi-Square(7)	0.9877

Heteroscedasticity test is used to detect whether variance of the disturbance term is normally distributed or not distributed. In order to test for the existence of heteroscedasticity, Breusch Pagan-Godfrey test was employed for this study. The result in the above table 3 indicate that the p-value for chi-square (0.9869) is greater than 0.05, therefore there is no heteroscedasticity problem in the study and the decision is accepting the null hypothesis.

Multicollinearity

Ho: There is existence of multicollinearity problems

H1: There is no existence of multicollinearity problems

Table 4. Variance Inflation Factors

Date: 07/08/24 Time: 14:44			
Sample: 1 96			
Included observations: 96			
Variable	**Coefficient**	**Uncentered**	**Centered**
	Variance	VIF	VIF
C	1.102104	923.3837	NA
ROA	0.006286	1.280086	1.025988
LQ	0.023421	30.95580	1.459659

LE	0.004729	13.55204	1.462070
LOGFS	0.022177	1422.241	3.374336
LOGBS	0.267958	197.3116	1.321705
AC	0.006717	1.406970	1.055227
LOGFA	0.030980	32.01027	3.308249

Multicollinearity defined as a conditions for existence of exact (linear) or inexact (nonlinear) relationship between the independent variables. The result in the above table 4 indicates that there is no a problem of multicollinearity in the explanatory variables. The value of all the independent variables have a centered variance inflation factor which is less than 0.7, this implies that there is no evidence of multicolliniearity problem among the explanatory variables, the X's. This result led to the researcher decides to accept the null hypothesis.

Confidence Interval Test

Table 5. Coefficient Confidence Intervals

Date: 07/08/24 Time: 14:47			
Sample: 1 96			
Included observations: 96			
Variable	**Coefficient**	**95% CI**	
		Low	**High**
C	-3.015358	-5.101638	-0.929079
ROA	0.627469	0.469911	0.785026
LQ	0.026436	-0.277695	0.330567
LE	-0.102622	-0.239277	0.034033
LOGFS	-0.665482	-0.961430	-0.369534
LOGBS	0.671791	-0.356922	1.700505
AC	0.012405	-0.150470	0.175280
LOGFA	0.256113	-0.093670	0.605897

Random Effect Result

Table 6. Random Effect Result

Dependent Variable: LOGFRQ						
Method: Panel EGLS (Cross-section random effects)						
Date: 07/08/21 Time: 14:52						
Sample: 2019/20-2023/24						
Periods included: 6						
Cross-sections included: 16						
Total panel (balanced) observations: 96						
Swamy and Arora estimator of component variances						
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**	**Confidence interval test (95%)**	
					Low	**High**
C	-3.199120	1.224280	-2.613062	0.0106	-5.101638	-0.929079
ROA	0.618113	0.077449	7.980897	0.0000	0.469911	0.785026

LQ	0.002171	0.163958	0.013241	0.9895	-0.277695	0.330567
LE	-0.095810	0.073779	-1.298598	0.1975	-0.239277	0.034033
LOGFS	-0.644431	0.175004	-3.682384	0.0004	-0.961430	-0.369534
LOGBS	0.751996	0.557419	1.349067	0.1808	-0.356922	1.700505
AC	0.010066	0.080989	0.124289	0.9014	-0.150470	0.175280
LOGFA	0.204155	0.209549	0.974261	0.3326	-0.093670	0.605897
R-squared		0.515117	Mean dependent var.		-6.072244	
Adjusted R-squared		0.476547	S.D. dependent var.		0.450923	
S.E. of regression		0.326243	Sum squared residual.		9.366242	
F-statistic		13.35532	Durbin-Watson stat.		1.901021	
Prob(F-statistic)		0.000000				
Correlated Random Effects - Hausman Test						
Equation: Untitled						
Test cross-section random effects						
Test Summary		**Chi-Sq. Statistic**	**Chi-Sq. d.f.**		**Prob.**	
Cross-section random		7.489725	7		0.3797	

Random Effect Testing

Commonly there are two panel data analysis, these are random and fixed effect models, in order to select the appropriate models to estimate the study variables. However, the choice between fixed effects and random effects model is by computing fixed effect testing and the Hausman specification tests to decide which model is appropriate to estimate the data.

Ho: Random effect model is more appropriate

H1: Fixed effect model is more appropriate

In order to select the appropriate model for the study the Hausman's specification test was employed during the period. The table 6 showed that random effect model is more appropriate than fixed effect model for this study, as the p-value (0.3797) is greater than 0.05 to conduct the panel regression estimation of the model. As a result, the researcher decides to accept the null hypothesis.

The researcher used correlated random effect regression models to analyze result of the study and the output is shown in the above table 5. Accordingly, the R-squared statistics and the Adjusted-R squared statistics of the model are 0.5151 and 0.4765 respectively. This implies that the independent variables included in this model could explain variation in the dependent variable by about 51% and 47.6% respectively. The remaining 49% indicates that explanatory variables that are not included in this model but that have impact on the financial reporting quality. The F-statistics probability value 0.0000 implies that the data fit the mode well and the explanatory variables are jointly having significant effect on financial reporting quality of Ethiopian insurance companies.

Discussion of the Results

Under this section, particularly the researcher analyzed in detail the regression result of random effect model. The results of this study show that all variables in the model except Return on asset (ROA) not affect financial reporting quality of Ethiopian insurance companies. Moreover, the regression result indicates that ROA has positive and significant impact on the financial reporting quality of Ethiopian Insurance companies. On

the other hand, the regression result shows that LQ has positive and insignificant effect, BS has positive and insignificant effect; LE has negative and insignificant effect.

The researcher analyzed the result of random effect model and shows that the explanatory variables included in the model such as return on asset (roa), liquidity (lq), leverage (le), board size (bs) and audit, (ac) and the dependent variable is financial reporting quality (frq). While firm size (fs) and firm age (fa) are constant variables.

Financial Reporting Quality Vs Profitability

The random effect regression result indicates that the coefficient of the independent variable return on asset has a positive and statistically significant effect on financial reporting quality at a value of 0.6181 and the p- value of 0.0000. It implies that return on asset is statistically significant at 5% level. It interpreted as a one percent (1%) increase in return on asset results a 0.6181 increase in financial reporting quality on average. said that profitability is not the determinants of quality financial reports. In line with this the study conducted by [4, 35, 31] showed that profitability is one of the determinant of quality report. Other empirical studies contradict the finding of the current study. The study conducted by [18] showed that profitability is not determinants of quality report.

Financial Reporting Quality Vs Liquidity

The independent variable liquidity has a positive and statically insignificant effect on a financial reporting quality at the coefficient of 0.0021 and the p-value of the 0.9895. It is not significant at 5% level. Finally, it is interpreted as a one percent (1%) increase in liquidity ratio results a 0.0021 increase in financial reporting quality on average. Therefore, the hypothesis that liquidity has a positive and statically significant effect on a financial reporting quality is rejected and accepted the null hypothesis. Similarly, the finding of [7] and [17] showed that liquidity and financial reporting quality had positively related to each other. Moreover, the finding of John *et al* 2017 showed that liquidity has positive but significant effect on financial reporting quality. This means that a strong and high liquidity position of the in the sectors and Natural Resources firms in Nigeria will enhance financial reporting quality. This finding agrees with the position that firms with good performance indicator such as liquidity, profitability, etc, will like to disclose their performance in the financial report.

Other authors also found the same results that liquidity had Positive and significant impact on financial reporting quality [33, 7, 21]. This understanding of the positive relationship between liquidity and financial reporting quality in the Agriculture and Natural Resources sectors could elicit, as a matter of policy, the maintenance of an optimum level of liquidity by management. On contrary, the finding of [30] showed that they have negative relationship. The author therefore, reported that higher information quality was associated with lower liquidity risk and that the reduction in cost of capital due to this association was economically substantial. The author also reported that the negative association between information quality and liquidity risk was stronger in times of large shocks to market liquidity

Financial Report Quality Vs Leverage

The explanatory variable leverage has a negative and statistically insignificant effect on financial reporting quality with its coefficient of -0.0958 and the p-value of 0.1975. This implies that leverage ratio has statically insignificant effect on financial reporting quality at 5% level. Generally, it is interpreted as a one percent increases in leverage results a 0.0958 decrease on financial reporting quality on average. As result, the hypothesis that states

that leverage has positive and statistically significant impact on financial reporting quality of Ethiopian insurance companies is rejected and accepted the null hypothesis, that leverage has negative and statistically insignificant impact on financial reporting quality of Ethiopian insurance companies. This finding showed that leverage is not the determinant of financial reporting quality of the company. In the same way, Studies of [16] established leverage is not a determinant of financial reporting quality. Furthermore, the studies of [7] found a negative relationship between leverage and disclosure, suggesting that highly leveraged companies tend to disclose private information to their creditors which may not be reflected in their annual reports. The regression result is contradictory with some previous studies. The study conducted by [34] showed that highly leveraged firms are more likely to engage in opportunistic activities and manipulation to avoid violation of debt covenants. This means that firm leverage is negatively and significantly affects the relationship between financial reporting quality and investment efficiency in the Ethiopian insurance companies, is rejected at 95 percent significance level.

While, studies of [8, 11, 31, 39] have all found a positive relationship between leverage and financial reporting quality. In addition, the works of [15] different from the finding of this study and they founded that leverage has a positive and significant influence on financial reporting quality. Moreover Leverage is also connected to financial reporting choices. Agency theory clarifies this link. The results of the study not the same as this theory, highly leveraged firms have an inducement to voluntary increase the level of corporate reporting to stakeholders through conventional financial statements [35].

The other independent variable included in the study is board size and it has a positive and statically insignificant impact on financial reporting quality. The coefficient of the variable indicates that 0.7519 with its p-value of 0.1808. This showed that board size is not statically significant at 5% level. Finally, it is interpreted as a one or more increase in board size results a 0.7519 increase in financial reporting quality on average. Similarly, the finding of most previous studies showed that, board size has positive relationship with FRQ. For instance, [3, 8, 31, 36] found a positive relation between board size and FRQ. These results implied that better disclosure quality of the annual reports could be achieved by having greater board size [36] Larger board size could provide more competence and knowledge to the firm and may have the capability to monitor excellently, which could consequently lead to higher quality of financial reporting [36]. In contrast [10], found a negative relation between board size and FRQ. This finding demonstrated that the lesser the board size, the better communication and coordination is which in turn will result in better disclosure quality of accounting information [3].

Financial Reporting Quality Vs Auditor Change

The explanatory variable of audit change is a positive and statically insignificant impact on financial reporting quality with the coefficient of 0.0100 and the p-value of 0.9014. This numerical value indicates that audit change is not statically significant at 5% significance level. It is interpreted as a one or more increase in audit change results a 0.0100 increase in financial reporting quality on average. Similarly, the study conducted by [19] found a positive relationship between auditor change and earnings management. This study supports the finding that auditor change brings earnings management.

The evidence indicated by IAF plays an important role in completing the financial statements audit [33], implying that IAF has an effective role in improving the audit quality and, in turn, FRQ. In the same way, the study conducted by [19] found a positive relationship

between auditor change and earnings management. This study supports the finding that auditor change brings earnings management [15] found that duplicitous financial reporting occurs early in an auditor-client relationship.

Financial Reporting Quality Vs Firm Size

More over the constant variable for the firm size has a negative and statically significant impact on financial reporting quality with the coefficient of a -0.6444 with a p-value of 0.0004. The finding implies that firm size has statically significant at 5% level. Many studies have researchers founded that firm have positive and significant effect on FRQ and the results were mixed. In opposite to this, larger firms are incentive to show a positive effect on FRQ [17]. Moreover, [1, 5] and found a significant positive relation between firm size and FRQ.

Financial Report Quality VS Age of the Insurance Company

The other constant variable included in the study is firm age. It has a positive and statically insignificant impact on financial reporting quality with coefficient of 0.2041 at p-value of 0.3326. The result showed that firm age is not significant impact at 5% level. It is interpreted as a one or more increase in age of the firm results a 0. 2041 increase in financial reporting quality on average. Similarly, [8] found that company age has a positive and significant effect on financial reporting quality. In the study the authors argued that older, experienced and well-established companies are likely to disclose more information because they have established and cost effective reporting systems. Moreover, firms advance in age improve in their governance mechanisms, and as a result, become more closely monitored by government regulatory agencies. This is expected to produce a corresponding improved financial reporting practice [14]. From this one can understand that firm age had a positive and significant impact on and financial reporting quality.

The firm gets stronger with age, and a strong and well-structured internal control system guarantees quality financial reporting process, [38]. On the other hand, younger companies disclose more information to boost investor confidence and reduce skepticism (Table 7).

Table 7. Summary of Hypothesized and Actual Impact

Independent Variable and Control Variables	**Measurement**	**Hypothesis**	**Actual Impact or Effect**
Profitability ratio	Measured in return on asset	Positive and significant	Positive and significant
Age of the Insurance Company(FA)	Measured age by the numbers of years plus one	Positive and significant	Positive and insignificant
Leverage(LE)	Measured as the ratio of total non-current liabilities to owners' equity and long-term liabilities	Positive and significant	Negative and insignificant
Liquidity (LQ)	Measures the ability of insurance companies to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses (CR) is measured by dividing current asset to current liability.	Positive and significant	Positive and insignificant

Firm Size(FS)	The firm is described as the business unit or undertaking which owns the resources of the business, within the scope of its plant's arsenal, its controls and how it is been managed	Positive and significant	Negative and significant
Auditor Change(AC)	Auditor change is measured by dummy variable, 1 if auditor was changed in the year and 0 otherwise	Positive and significant	Positive and insignificant
BOARD SIZE(BS)	Measured by counting the number of board directors in company	Positive and significant	Positive and insignificant

Concluding Remarks and Recommendations

The study aimed to examine the determinant of financial reporting quality on Ethiopian insurance companies'. To achieve this purpose, the study makes survey on majority of Ethiopian insurance companies for a period of 2019/20-2023/24.

Based on the study findings, the study makes a number of conclusions. First, the study concludes that financial reporting quality is the main core of economic activity. The nature of reporting quality varied with the insurance as evidenced by a difference in the trends of the variables. The determinants of financial reporting quality are not well described in previous literature since the meaning of quality in accounting is rather different from those in many other fields of study.

The results of the study showed that profitability ratio has statistically significant effect on financial reporting quality of Ethiopian insurances companies. While, others are opposite to the expectations of the researcher and the study found that auditor change, board size, leverage and liquidity do not have statistically significant effect on financial reporting quality of Ethiopian Insurance companies.

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Conflicting of Interest

The author declares that this thesis is an original record of their independent study. There are no potential conflicts of interest (i.e. financial, professional, or personal), with respect to the research, authorship, and/or publication of this article.

Author Contributions

The sole author, *[Meti Leta Gonfa]*, assumes full responsibility for the entirety of the work, including study conception and design, data collection, analysis and interpretation of results, and the preparation of the manuscript.

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Ethical Approval

This study was conducted in strict adherence to established ethical standards. Formal administrative clearance and approval were obtained from all participating Ethiopian Insurance Companies. Participation was entirely voluntary, and written informed consent was secured from all individual participants prior to their inclusion in the study.

Data Availability

The data supporting the findings of this study are included within the article and its supplementary materials. Additional raw datasets generated during the interview and questionnaire phases are available from the author upon reasonable request, subject to the confidentiality agreements and ethical guidelines established with the participating Ethiopian Insurance Companies.

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