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Impact of Regulatory and Supervisory Framework on Financial Reporting Quality of Microfinance Banks in Kwara State, Nigeria

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Abstract
The alarming rate of reported cases of winding-up of firms especially among microfinance banks raise serious questions on the information provided through annual reports of these banks. Expectedly, financial reports supposed to give relevant and reliable information about the economic realities of these business but this seems not be so. The level at which microfinance banks complied with regulatory and supervisory framework need to be empirically investigated. Therefore, this study examined the impact of regulatory and supervisory framework on the quality of financial reports of microfinance banks in Kwara State, Nigeria. The study employed a cross-sectional survey research design. The primary data collected through the questionnaire administered to three hundred and one (301) respondents from all micro-finance banks in Kwara State were analysed using ordinary least square (OLS) regression analysis. The study found that prudential requirements, reporting requirements and corporate governance requirements have positive and significant effect on the quality of financial reports of microfinance banks in Kwara state, Nigeria as shown by t-values 6.82, 4.582 and 4.141 with p-values of 0.009,0.037and 0.0102 respectively. This result implies that the extent to which management of microfinance banks comply with prudential requirements, reporting requirements and corporate governance requirements explain variations in their financial reports. In view of these findings, this study recommends that regulatory bodies such as CBN and NDIC should ensure that the laid down rules and regulations guiding the conduct and preparation of the financial reports of the microfinance banks in Nigeria are strictly adhere to.

Keywords: Prudential Requirements, Reporting Requirements, Corporate Governance Requirements, Financial Reporting Quality

1. Introduction

The alarming rate of reported cases of winding-up of firms especially

among microfinance banks raise serious questions on the information provided through annual reports of these banks. Expectedly, financial reports supposed to give relevant and reliable information about the economic realities of these business but this seems not be so. Series of events that are inimical to the going concern of these entities that are supposed to have been captured in the form of either financial figures or narratives in the annual report to depict the health status are hardly discussed earlier enough for investors and other stakeholders to be guided accordingly. In effect, innocent investors are not well informed which in most cases translate to loss of investment and in worst scenario lead to sudden closure of the bank by relevant regulatory authorities (Abakasanga, Ofurun, & Ogbonna, 2019; Lawal & Abdullahi, 2020).

The microfinance institution (MFIs) of the Nigerian banking industry which was established in 2005 through regulatory and supervisory framework for Microfinance banks for the aim of addressing the prolonged non-performance of many existing community banks by making funds available to people at grass root level. In 2010 the Nigerian Deposit Insurance Corporation announced the seizure of license and closure of two hundred and twenty four (224) microfinance banks in Nigeria for low compliance with regulatory framework, poor corporate governance, poor accounting system, incompetent management, weak internal controls system, high cost of transaction and lack of well-designed operations (Kanu & Isu, 2015).

In response to the revocation of licenses of two hundred and twenty-four (224) MFIs in 2010 and to prevent the reoccurrence of the menace, various reforms had been done to the regulations of microfinance banks like the Regulatory and Supervisory Framework for Microfinance Banks in Nigeria by the Central Bank of Nigeria (CBN) in 2012 . Despite these revisions, the collapse of MFIs still continues on issues that should have been revealed earlier enough through financial reports. This has been attributed to low level of compliance with regulations by the microfinance banks. This is evident by recent seizure of operating license of forty-two (42) microfinance banks in Nigeria and immediate closure of the microfinance banks with effect from 12th November, 2020 (ndic.gov.ng/failure-resolution/closed-financial-institutions).

Literatures have identified series of factors that may be accounted for this ugly scenario with emphasis on the input factors ranging from commitment of management, integrity of management, accounting system put in place to track various economic activities of these organizations to regulatory compliance level.

Empirical evidence on these former factors are many in financial reporting quality literatures (Okpala, 2019; Muhammad, Ayoib & Noor,2016; Moses, Ofurum & Egbe, 2016; Ogbonna & Ebimobowei, 2012; Adediran, Alade & Oshode, 2013) with little or no research interest on the extent to which regulation influence the quality of information provided annually. Given the rate at which microfinance bank industry experience collapse, as evidenced from the number of microfinance banks declared liquidated in 2010 and the recent report of collapsed in November, 2020 by Nigeria deposit insurance commission (NDIC), empirical inquiry into the extent to which regulatory and supervisory framework are being complied with to guarantee financial reporting quality is not out of place. For the purpose of this study, the following research hypotheses will be tested.

H_{01}: Prudential requirement does not significantly influence financial reporting quality of microfinance banks in Kwara State.

H_{02}: Reporting requirement does not have significant effect on financial reporting quality of microfinance banks in Kwara State.

H_{03}: Corporate governance requirements has no significant effect on financial reporting quality microfinance banks in Kwara state.

2. Literature review

2.1 Conceptual Review

2.1.1 Regulatory and Supervisory Framework

Bank regulation involves setting rules and guidelines for the banking system, it is a form of government regulation which subjects banks to certain requirements, restrictions and guidelines, designed to create market transparency between banking institutions and individuals and corporations with whom they conduct business among other things while supervision involves examining the financial condition of individual banks and evaluating their compliance with laws and regulations in order to promote safety and soundness of the banking system, fosters stability in financial market and to ensure compliance with laws and regulations under its jurisdiction (Federal Reserve Bank of San Francisco, 2018).

The microfinance banking subsector of Nigerian Banking sector was established in 2005 through regulatory and supervisory framework for microfinance banks (2005). These supervisory and regulatory guidelines are issued by the Central Bank of Nigeria [CBN] in exercise of the powers conferred on it by the provisions of Section 28 subsection (1b) of the CBN Act 24 of 1991 [as amended] and in pursuance of the provisions of Sections 56-60A of the Banks and Other Financial Institutions Act [BOFIA] 25 of 1991 [as amended]. The guidelines are to regulate activities and operations of Micro-

Finance Banks that seek to take savings/deposits from members of the public and engage in microfinance intermediation services for their clients in Nigeria. These regulations include prudential requirements which comprise various financial regulations that required financial firms to control risk and disclosure of loans and advances, reporting requirements involves regulatory reporting which include the submission of raw or summary data needed by regulators to evaluate a bank's operations and status of compliance with applicable regulatory provision while corporate governance requirements include various regulations that dictate how bank board of directors manage and oversee operations of the bank (CBN, 2005).

2.1.2 Financial Reporting Quality

Tang, Chen and Zhijun (2008) define financial reporting quality as the degree at which financial statements provide the users with information that is fair and authentic about the financial position and performance of the reporting entity. In this study, financial reporting quality was assessed directly by operationalizing qualitative characteristics of financial report which is also known as International Accounting Standard Board (IASB) qualitative model consistent with numerous previous studies (Mubaraq, Abdulrasaq & Saidu, 2019; Kristina & Marin, 2019; Mahboub, 2017; Ogbonna & Ebimobowei, 2012; Beest, Braam & Boelens, 2009; Erlynda, 2015).

Kythreotis (2014) observed that qualitative characteristic of financial reports are divided into two: fundamental characteristics and enhancing characteristics. The fundamental qualitative characteristics (i.e. relevance and faithful representation) are the most important and determine the decision usefulness of content of financial reports while the enhancing qualitative characteristics (i.e. understandability, comparability and timeliness) improve decision usefulness when the fundamental qualitative characteristics are established but they cannot determine financial reporting quality on their own (International Accounting Standard Board [IASB], 2008).

Relevance is referred to as the capability of making a difference in the decisions made by users in their capacity as capital providers (IASB, 2008). Faithful representation as defined by Willekens (2008) is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including transactions and events are fully represented in the financial reporting. Understandability is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently.

Cheung, Evans and Wright (2010) explain that comparability is the

concept of allowing users to compare financial statements to determine the financial position, cash flow, and performance of an entity. This comparison allows users to compare across time and between companies in the same period while timeliness is one of the enhancing qualitative characteristic of financial report which implies that information must be available to decision makers before losing its powerful and good influences. Timeliness is evaluated using the period between the year-end and the issuing date of the auditor's report—the period of days it took for the auditor to sign the report after the financial year-end (Beest, et al, 2009).

2.2 Theoretical Framework

The theoretical framework for this study is based on institutional theory of organisation. The origin of institutional theory can be traced to Tobert and Zuxker in 1935 but was popularised by DiMaggio and Powell in 1983. Institutional theory postulates that organisations are influenced by external or internal pressures in forming their structure (Zucker, 1987). This theory explains actions and decision making in organisations. Institutional theory argues that organisations that prioritise legitimacy will have a tendency to try to adjust to external expectations or social expectations where the organisation is located. Adjustments to external expectations or social expectations result in the tendency of organisations to separate internal activities and focus on systems that are symbolic to external parties. Organisations that tend to gain legitimacy will tend to have similarities or isomorphism with other public organisations (Ridha & Basuki, 2012).

Institutional Theory illustrates three types of drivers (i.e., coercive, normative, and mimetic) that generate isomorphism in organisational strategies, structures and processes (DiMaggio & Powell, 1983). Coercive power arises from the pressures applied by those influential positions and these pressures are vital to driving environment management and sustainability of firms (Kilbourne, Beckmann & Thelen, 2002).Normative pressures come in the form of professional standards or good practices, most often presented by influential professional communities. The effectiveness of normative pressures and the successful implementation of normative professional practices depend largely on the professional and educational background of individuals in the observed entity, as well as their willingness and commitment to encourage the implementation of professional norms of behaviour. The existence of mimetic pressures implies that certain organisations carry out good or best practices in the environment, which is why other organisations follow such behaviour. Mimetic occurs when

organisations imitate the actions of a successful organisation in the system, as an endeavour to follow the pathway and then legitimacy (DiMaggio et al., 1983).

2.3 Empirical Review

Poshakwale, Aghanya and Agarwal (2020) investigated the impact of regulations on compliance costs, risk-taking, and reporting quality of the European Union banks. The data for the study were extracted from the financial statements of one hundred and thirty-seven (137) banks in European Union and three hundred and twenty-seven (327) banks in the United States and Canada listed on DataStream for the financial years between 2004 and 2013. The result of the panel regression analysis revealed that post Statutory Audit and Corporate Reporting Directives (SACORD) have positive influence on financial reporting quality.

Hanlon, Hoopes and Shroff (2014) evaluated the effect of tax authority monitoring and enforcement on financial reporting quality in the United States of America. The study obtained data from the financial reports of firms listed on the Compustat for the years 1992 to 2008 and were analysed using panel regression analysis. The study found that that higher tax enforcement by the tax authority has a positive association with financial reporting quality. Further, the result of the fixed effect also revealed that this association is generally stronger when other monitoring mechanisms are weaker.

Inchausti (2007) investigated the influence of regulations on the quality of financial reporting in Spain. The study examined regulations in the context of financial reporting framework and financial reporting on total accrual, the sample of the study consisted of 49 companies which were studied for a period of three (3) years (1989 to 1991) using secondary data obtained through financial report of the selected companies. The results of the panel data analysis indicated a strong positive influence of regulations on financial reporting quality of companies listed on flour of stock of exchange of Spain in the disclosure of information even before being compulsory.

Mohammed, Ayoib, Satirenjit and Haseeb (2017) examined corporate regulations and quality of financial reporting, evidence from Malaysia. The study used a stratified random sample to choose three hundred (300) non-financial listed companies from all sectors except banks, insurance and financial companies. The result of Pearson's and Spearman's correlation matrixes and multiple regressions analysis showed that corporate regulations affect financial reporting quality positively evidenced by increase in the quality of financial reporting after the introduction of Malaysian code of

corporate governance 2012.

Dejan, Vlade and Milan (2016) examined legal and professional regulations as determinants of the quality of financial reporting: empirical research, the study investigated the influence of legal and professional regulations on the quality of financial reporting, empirical evidence from Sambia, using primary data sourced through questionnaire administered to practicing Accountant and Auditor in Sambia, the result of analysis of variance used for inferential analysis indicated that both the legal and professional regulations have positive impact on the quality of financial reporting.

Abdulmalik and Ahmad (2019) investigated regulatory changes and reporting quality: the moderating role of firm characteristics. The study investigated the effect of regulatory changes on financial reporting quality and to further test whether this effect was moderated by firm characteristics (i.e. abnormal audit fees, political connections and overlapping directorship) in Nigeria. The study utilized the data of 90 companies listed on the Nigerian stock exchange over the period 2008–2013. Using Generalized Method of Moments (GMM) technique that takes into account the endogeneity nature of financial reporting quality and audit fees model, the results indicated that financial reporting quality improved in the regulatory changes period.

Madawaki (2014) examined impact of regulatory framework and environmental factors on accounting practices by firms in Nigeria, the study established that accounting and reporting practices in Nigeria are directly influenced by regulatory and institutional framework and also indirectly affected by political factors especially during democratic dispensations. The study suggests the strengthening the capacity of accounting regulatory bodies for monitoring and enforcing accounting standards and building the capacity of accounting professional bodies to build the confidence of stakeholders in the accounting function and to inspire investors.

Jobra (2017) examined impact of financial frameworks on the quality of Not-for-profit financial reports. The study carried comparative study to establish whether reporting frameworks used by not for profit making organizations in Uganda affect the quality of financial reports. Survey data through a researcher-developed instrument were collected from a purposefully selected sample of 74 not for profit making organizations, the data were analyzed using analysis of covariance. Findings of the study indicated that there were no significant associations between financial reporting frameworks and quality of financial reports.

Bala and Ibrahim (2014) examined monitoring characteristics and

financial reporting quality of listed conglomerates firms in Nigeria. The study examined the influence of monitoring characteristics on financial reporting quality of Listed Conglomerates Firms in Nigeria. The study covered the period of six years 2009 to 2014. Data for the study were extracted from the firms' annual reports and accounts. A multiple regression was employed to test the model of the study using OLS regression Model. The results from the analysis revealed a positive relationship between monitoring characteristics and financial reporting quality of Listed Conglomerates Firms in Nigeria.

Uwalomwa, Eluyela, Olubukola,Obarakpo and Falola (2019) examined corporate governance and quality of financial statements a study of listed Nigerian banks. In order to provide answers to the research questions raised in the study, data were generated from the annual report of the listed banks on the Nigerian Stock Exchange considering the period 2008–2015. The data were analyzed using descriptive statistics, correlation matrix and panel data regression analysis. It was observed that board size and board independence had a non-significant negative relationship with the timeliness of financial reports. Finally, it was observed that foreign executives on the board had a significant positive relationship with the timeliness of financial reports.

3. Methodology

This study employed a cross sectional survey research design. This design is deemed to be appropriate for the study as it involves collection of data across microfinance banks in Kwara state at a point in time through administration of questionnaire to the sample respondents. Given the above research design, the population of the study is divided into two categories: category one comprises of shareholders of microfinance banks in Kwara state. Category two comprises of officials of regulatory bodies (CBN & NDIC). According to the Central Bank of Nigeria (2020), there are twenty-nine (29) microfinance banks in Kwara State. Out of these, there are no national microfinance banks, fifteen (15) Tier 1 microfinance banks, twelve (12) Tier 2 microfinance banks and two (2) State microfinance banks (CBN, 2020).
Thus the population for category one is as follows:

Table 1: Population of Shareholders of Microfinance Banks

No. of Microfinance banks in Kwara State	Average No. of Shareholders per banks	Total average shareholders in all microfinance banks in Kwara State
29	26	754

Source: Authors' Computation, 2021

The average number of shareholders per bank is arrived at by finding the average of the minimum and maximum number of shareholders which a private limited liability company can have in accordance with CAC requirement. Out of this population, 261 shareholders were selected as determined by Taro Yamane's (1967) size formula. Sample size for category two of population is Twenty (20) from each regulatory body, totalling Forty (40) using judgmental sampling. Therefore, the sample size for this study is three hundred and one (301) respondents, drawn from the two categories of the study population, whom the designed questionnaires were administered to. The sample was selected using random sampling technique in order to ensure that all respondents have equal chance of being selected.

Data for the study were resources collected from the Shareholders of microfinance banks and officials of regulatory bodies (CBN & NDIC) through using questionnaire administered. The questionnaire was structured in 5-point likert scale with close-ended questions which elicit information from the respondents by allowing them to choose an answer from list of alternatives. The questionnaire used in this study was divided into two (2): the first questionnaire was administered to the staff of regulatory institutions (CBN & NDIC) seeking for their opinion on the regulatory compliance level and the quality of financial report of microfinance bank in Kwara state while the second questionnaire was administered to the shareholders of microfinance bank in Kwara state seeking for their opinion on the quality of financial report of microfinance bank in kwara state.

The study employed both the descriptive and inferential analysis, the descriptive analysis entails mean, median and standard deviation which were employed to give summary information on respondents profile and measurement questions. For inferential analysis, multiple regression technique (Ordinary Least Square) was used to estimate the influence of the independent variables on the dependent variable. Meanwhile, before running the regression model, preliminary tests were conducted as follows: Cronbach's Alpha was adopted to determine the reliability of research instrument while tolerance and VIF techniques were adopted to test for collinearity while normality test was carried out using Kolmogorov Simonov technique.

3.1 Model Specification

The formula given below was used to calculate the linear regression to express the relationship between the dependent and independent variables

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \qquad \text{.............................(1)}$$

Where:
Y is financial reporting quality (Measured with qualitative characteristics)

β_0 is the constant term. $\beta_1 - \beta_3$ is the regression coefficient of regulatory and supervisory framework
X_1 is the prudential requirements(Measured with CBN guidelines,2005)
X_2 is the reporting requirements(Measured with CBN guidelines,2005)
X_3 is the corporate governance requirements(Measured with CBN guidelines,2005)
ε is the error term

4. Results and Discussion

Table 2: Descriptive Analysis of the Response Rate

Target for Questionnaire	**Circulated**	**Returned**	**Invalid**	**Valid & useful**
Regulators	40	35		35
Shareholders of MFBs	261	234	2	232
Total	**301**	**269**	**2**	**267**

Source: Authors' Computation, 2021

The result in table 2 shows the response rate of the questionnaire administered. The results shows that out of three hundred and one (301) questionnaires administered to the selected respondents based on the sample size as discussed under methodology, the researcher was able to collect two hundred and sixty nine (269) questionnaires which represent 89% response rate. However, out of the two hundred and sixty nine questionnaires filled and returned, two of the questionnaires were wrongly filled and were thrashed out. This implies that two hundred and sixty seven questionnaires were valid, hence constitute the basis of analysis for this study.

4.1 Preliminary Analyses

Before running the regression model, it is necessary to ensure that data collected are reliable, certify that the assumptions of the model are valid and avoid spurious results. Therefore, this study conducted some diagnostic analyses such as reliability test, normality test and multi-collinearity test in order to ensure that conclusions to be made from inferential analysis are valid.

4.1.1 Reliability Test

Table 3: Reliability Test Result

Variables	No. of items	Cronbach's Alpha
Prudential requirements	11	0.861
Reporting requirements	6	0.793
Corporate governance requirements	4	0.870
Financial reporting quality	21	0.982

Source: Authors' Computation, 2021

The data collected was subjected to reliability test. The reliability of the research measurement was tested to ascertain the level of accuracy, precision and consistency of the measurement instrument using Cronbach's Alpha technique. Reliability has largely been measured using Cronbach Alpha. The assumption of Cronbach alpha is that any value greater than 0.7 is acceptable and makes the data to be reliable and the instrument is unreliable if otherwise. Based on the results in table 3, it shows that the statements raised in the questionnaire are reliable and measured what they ought to measure as the variables showed values greater than the benchmark of 0.7 (0.861; 0.793; 0.870 and 0.982) for prudential requirements, reporting requirements, corporate governance requirements and financial reporting quality. This indicates that the data collected are reliable and consistent with acceptable research standards.

4.1.2 Multi-collinearity Test

The result in table 4 below was used to test the level of multicollinearity among the independent variables. This is to ensure that two (2) independent variables are not measuring the same thing at the same time. The rule of thumb is that if the variance inflation factor is greater than 5, it shows multicollinearity problem and should be dropped (Hair, Sarstedt, Hopkins & Kuppelwieser, 2014)

Table 4: Multi-collinearity Result

Variables	**Tolerance**	**VIF**
Prudential Requirements	0.864	1.238
Reporting Requirements	0.790	1.350
Corporate Governance Requirements	0.861	1.140
Mean VIF		1.243

Source: Authors' Computation, 2021

Based on the results shown the table 4, it can be concluded that the data collected for the study do not suffer from multicollinearity problem as shown by variance inflation factor (VIF) less than 5 (as the highest VIF is 1.350) and tolerance level less than 1.0. Overall, the mean VIF is 1.243 which is far from the value of 5. Hence, there is absence of multicollinearity problem in this study.

4.1.3 Normality Test

The study conducted a normality distribution test through the use of Kolmogorov Smirnov test. The rule of thumb is that null hypothesis should be rejected if p-value is less than 5% level of significance a normality distribution problem arises (Tabachnick & Fidell, 2007).

Table 5: Normality Distribution Test Result

	Df	Sig
Prudential requirements	267	0.76
Reporting requirements	267	0.83
Corporate governance requirements	267	0.96
Financial reporting quality	267	0.99

Source: Authors' Computation, 2021

Based on the result shown in table 5, it is ascertained that the results of normality analysis with Kolmogorov Smirnov test are 0.76, 0.83, 0.96 and 0.99 respectively. Each of the value is greater than 0.05 which implies that all the variables are normally distributed**.**

4.2 Restatement and Testing of Hypothesis

In this section, the three null hypotheses raised in the introduction were tested using multiple regression analysis through ordinary least square regression as shown in table 6. The study used t-value with p-value at 5% level of significance in the acceptance or rejection of the hypotheses. This was used to determine the extent to which the independent variables used in the study affect the dependent variable in order to give scientific affirmation of the tentative statement earlier made regarding hypotheses.

Table 6: Ordinary Least Square Regression Result

Variable	Coefficient	Standard Errors	T-value	P-value
Intercept	-2.356	0.519	-5.404	0.000
Prudential requirements	0.501	0.039	6.892	0.009
Reporting requirements	0.312	0.072	4.582	0.037
Corporate governance requirements	0.269	0.069	4.141	0.012
F-statistic P-value R-square Adjusted R-square	42.511 0.000 0.474 0.429			

Source: Authors' Computation, 2021

From the empirical result in table 6, it can be deduced that the coefficient of determination (R^2) is 0.474 which indicates how much of variation in the financial reporting quality was accounted for by the independent variables (prudential requirements, reporting requirements and corporate governance requirements) used in the study. This implies that 47.4% variation in financial reporting quality was explained by the independent variables aforementioned while the remaining 52.6% was explained by other variables not included in the model of this study .In addition, the result in table 6 shows that the model of the study is fitted as depicted by F-statistic of 42.511 with p-value of 0.000. This implies that the model of the study fitted and reliable. Following the fitness of the model, the hypotheses of the study were conducted.

H_{01}: Prudential requirements do not significantly influence financial reporting quality of microfinance banks in Kwara State. The result in table 6 revealed that prudential requirements has a positive and significant effect on the quality of financial report of microfinance banks in Kwara State as shown by t-value of 6.892 with p-value of 0.009 at 5% level of significance. This result leads to the rejection of the null hypothesis which states that prudential requirements does not significantly influence financial reporting quality of microfinance banks in Kwara State and consequently acceptance of the alternative hypothesis.

H_{02}: Reporting requirement does not have significant effect on financial reporting quality of microfinance banks in Kwara State. Based on the

empirical results in table 6, it can be deduced that reporting requirements has a positive and significant effect on the quality of financial reporting of microfinance banks in Kwara State as shown by t-value of 4.582 with p-value of 0.037 at 5% significance level. The result leads to the acceptance of the alternative hypothesis which states that reporting requirement have significant effect on financial reporting quality of microfinance banks in Kwara State, thereby rejection of the null hypothesis. This implies that a microfinance bank that comply with reporting requirements would produce relevant financial reports as the reporting requirements stipulated the nature, content and format of what constitute financial reports of microfinance banks .

H_{03}: Corporate governance requirements have no significant effect on financial reporting quality microfinance banks in Kwara state. The result in table 6 shows that corporate governance requirements has a significant and positive effect on financial reporting quality of microfinance banks in Kwara State as shown by t-value of 4.141 and p-value of 0.012 at 5% level of significance. This result leads to the rejection of null hypothesis which states that corporate governance requirements has no significant effect on the quality of financial report of microfinance banks in Kwara State and consequently, acceptance of the alternative hypothesis.

4.3 Discussion of Findings

From the empirical analysis and the hypothesis tested, the result showed that regulatory and supervisory framework (proxy with prudential requirements, reporting requirements and corporate governance requirements) has significant positive effect on the financial reporting quality of microfinance banks in Kwara State. This indicates that regulations such as prudential requirements, reporting requirements and corporate governance requirements issued by regulatory body such as the Central Bank of Nigeria would ensure that relevant and reliable information are provided by the microfinance banks for effective decision making by the users of the financial report. The outcome conformed to the assumption of the institutional theory (coercive measure) that one of the ways to ensure quality financial reporting is to put pressure on the banks in order to prepare their financial statement in line with the required regulatory policies. The result concurs with the findings of Hanlon, *et al*. (2014); Mohammed, et al. (2017); Dejan, et al. (2016); Amalida and Rosidi (2018); Fakhri and Ivan (2018); Abdulmalik and Ahmad (2019); Chalu (2019); and Poshakwale, *et al*. (2020) who found that compliance with the required regulations would increase the relevance and faithful representation of the financial statement. In contrast, the outcome contradicts

the findings of Cohen and Karatzimas (2017); Suilatri (2018) and Aswar (2020) as they found that regulatory compliance has an insignificant influence on financial reporting quality.

5. Conclusion and Recommendations

Based on the empirical findings of the study, it is concluded that supervisory and regulatory framework plays vital roles in the preparation and presentation of financial reports that possess the quality of relevance, faithful representations and other enhancing qualitative characteristics with prudential requirements contributing the highest percentage, followed by reporting requirements and corporate governance requirements respectively.

Relying on the findings of this study and the conclusions drawn from this study, this study recommends that the regulatory bodies such as the Central Bank of Nigeria and NDIC should place more emphasis on monitoring of microfinance banks in order to ensure that the laid down rules and regulations guiding the conduct and preparation of the financial statement of the microfinance banks in Nigeria are strictly adhere to and also penalties in the form fines should be put in place to sanction any microfinance bank that violates the laid down rules and regulations.

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