# FINANCIAL TECHNOLOGY AS A PANACEA FOR FINANCIAL REPORTING RISKS

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## Abstract

*The complexities of doing business in the currently dynamic business space have also increased the level, sophistication and frequency of the financial reporting requirements faced by most businesses. The requirement for relevance of information requires timely preparation and rendition of reports while reliability requires firms to painstakingly check the reports to ensure accuracy. The dilemma of timeliness and accuracy in financial reporting makes a herculean task that needs to be solved by all entities. Globalisation of operations and the use of technology to drive businesses has also resulted in increased risks of financial reporting that may be prone to human errors and hence will need to be managed using the appropriate technology. This paper therefore examines the use of financial technology to manage financial reporting risks. The paper reviews the financial reporting risks faced by most firms and discusses the evolving trends in the use of technological solutions to drive business and improve reporting. The study observed how adoption of technology acquired at a relatively low cost have assisted firms in collecting and storing large amounts of data, conducting relevant analysis and reporting the results in very impacting ways that add significant value to stakeholders, such as investors, staff, clients and regulators. The study recommends that organisations should adopt the appropriate use of technology to help financial reporting to make timely decisions to the benefit of stakeholders. Any firm that fails to adopt financial technology may find itself at a disadvantage as it faces competition from other businesses and new entrants to its market.*

**Keywords: Financial Reporting, Financial Reporting Risk, Financial Technology, Globalisation, Financial Innovation.**

**JEL Code:** G30, M14, M15, O33, G38

## 1. Introduction

Financial reporting is the process of recording, documenting, presenting and communicating financial activities and performance of an entity over a specific period of time. The time period can be monthly, quarterly or yearly as the case may be. Financial reporting incorporates the processes and procedures adopted by an entity to comply with mandatory accounting regulations since document used in evaluating and making decisions on all financial activities are subject to review by the financial regulatory institutions. Hence accurate documentations are essential in ensuring that the financial reports produced by an entity comply with tax regulations and financial reporting criteria. Accurate financial reporting also assists in simplifying tax computation and payment, valuation of the business and the auditing processes. This is in addition to reducing the time required to complete the necessary financial obligations (Bensousan, 2022; Oliver, 2021).

The principal qualitative characteristics that make financial reports useful to users include understandability, relevance, comparability and reliability (IASC Foundation, 2018). The requirements to ensure the dissemination of reliable and accurate financial reports in a timely relevant manner, poses significant risks to financial reporting. Financial reporting risks are risks from human or system errors which may lead to the misrepresentation of the financial, economic and capital circumstances of a firm. This would lead to untrue or incorrect information about the state of affairs of the company. Financial can arise from events or conditions that may be external or internal to the entity, and from actions and inaction (Deloitte, 2022).



Technology has changed the ways activities are carried out across all disciples. Over the past twenty years, technology has changed the world quite drastically and affected the way we perform our daily activities. In accounting and finance, the adoption of appropriate Technology is helping to enhance the quality and timeliness of financial in order to make effective decisions both strategic and operational level. Since the early stage in which financial technology was limited to use of accounting system, it has expanded into broader areas including providing Enterprise Resource Planning (ERP) with business intelligence capabilities.

This paper is therefore focused on the adoption of financial technology as the solution to financial reporting risks and help with the quality issues in financial reporting such as relevance, reliability, understandability and comparability (Sina, Chowdhury, Shakib, Akter & Arafat, 2021).

### 1.2 Statement of Problem

Doing business in a very dynamic market space has become very complex. The complexities have also increased the level, sophistication and frequency of the financial reporting requirements faced by businesses. The requirement for the relevance of information requires timely preparation and rendition of reports while reliability requires the painstaking check of the reports to ensure accuracy. This dilemma of speed and accuracy makes financial reporting become a herculean task that needs to be solved by all entities. Globalisation of operations and the use of technology to drive businesses has also resulted in increased risks of financial reporting that may be prone to human and system errors and hence will need to be managed using the appropriate technology.

Therefore, this study seeks to examine the effect of the adoption of financial technology on financial reporting risks in Nigeria.

### 1.3 Importance of the Study

The rate of change in the world today is unprecedented. This is attributable to several factors including the influential power of financial technology which ranks atop among them. The adoption of technology has affected the accounting functions in organizations in various ways and in the process helping organisations to handle very complicated transactions. The heightened regulatory oversight requires entities to file several reports within very short timelines which typically affect the quality of the report prepared and disseminated by organisations. From the outside, it is generally believed that the adoption of technology would help improve financial reporting and mitigate some of the operational risks involved.

Thus, this study therefore seeks to get the views of practitioners on the success or otherwise of adopting financial technology as the solution to financial reporting risk in Nigeria.



### 1.4 Objectives

The main objective of this study is to investigate the impact of the adoption of financial technology to mitigate financial reporting risks in Nigeria. Specifically, the study seeks to:

1 Determine how financial technology affects financial reporting in Nigeria.
2 Ascertain whether financial technology enhances the relevance and reliability of financial reports.
3 Evaluate if financial technology helps to mitigate financial reporting risks.

### 1.5 Apriori Expectation

Under the *apriori* expectation, the anticipated relationship between the dependent variable (financial reporting risks) and the independent variables (financial technology) is positive.

## 2. Literature Review

The dynamic pace of changes and interconnectedness of businesses is resulting in higher requirements for accurate and timely financial reporting. Globalization and the complex nature of transactions are also leading to increasing regulatory requirements. Due to these issues, it has become critical to apply the perspective of people, process, and technology in the evaluation of financial reporting risks and to understand the ways in which technology contribute to aggravating or mitigating financial reporting risks (Deloitte, 2022).

Oladejo, Yinus, and Aina-David (2021) investigated the relationship between the adoption of accounting technology and financial reporting quality of quoted deposit money banks in Nigeria. The study used primary data to conduct analysis using descriptive and inferential statistics. The study concluded that adoption of accounting technology does not alter the basic accounting procedure but rather it improves the timeliness of financial reporting.

Sina et al (2021) studied the role of information technology in improving the quality of financial reports prepared by commercial banks in Bangladesh. The study used primary data sourced through a structured questionnaire administered to selected banks and analysed using the General Regression Model by OLS. The study found a positive correlation between the adoption of technology and the quality of reports.

Deng, Yongbin, Ye and Yiwen (2021) on the relationship between Fintech and bank risk-taking behavior in China. The study adopted a benchmark regression model to analyze the 'municipal digital financial inclusion index compiled by Peking University and the annual report data of 155 small and medium-sized banks from 2011 to 2016'. The study found that the development of financial technology has significantly reduced the level of bank risk-taking.



Owolabi and Izang (2020) evaluated the effect of adoption of cloud accounting on financial reporting quality and performance. The study discovered that adopting cloud accounting technology increases financial reporting quality and financial performance of firms.

Teymouria and Ashoori (2011) evaluated the impact of information technology on risk management. The study estimated the effects of usage of information technology on data collected on 50 Iranian oil companies and analyzed using three different indices; cost, time, and performance, to evaluate the impact of information technology on risk management. The study concluded that information technology has a positive impact on risk management by optimizing time of process rather than cost and performance.

## 3. Methodology

The study focuses on the adoption of financial technology as a solution to financial reporting risks. The study seeks to establish whether financial technology helps to mitigate the inherent risks in financial reporting.

### 3.1 Research Design

The study employed the correlational survey research design in order to confirm the relationship that exists between financial technology and financial reporting risks. The study uses questionnaire to collect relevant data and adopted the five-point Likert scale based on Level of Agreement questionnaire starting from Strongly Agree (SA), Agree (A), Neither Agree or Disagree (N), Disagree (D), and Strongly Disagreed (SD) was used to collect data from randomly selected firms in Nigeria. The questionnaire shared among several firms in Lagos, Nigeria was designed in such a way that every question in the questionnaire was related to the research questions. Out of 100 questionnaires distributed, 76 responses were collected from diverse respondents across sectors, sizes and locations.

### 3.2 Research Questions

A questionnaire requesting for answers to the following questions was designed:

1 Whether financial technology affects financial reporting;

2 Whether financial technology enhances the relevance and reliability of financial reports; and

3 How financial technology reduces the inherent risks of financial reporting.

### 3.3 Research Hypothesis

The following null hypotheses were postulated for the study:

$H_0$1: Financial technology does not impact financial reporting in Nigeria

$H_0$2: Financial technology does not enhance the relevance and reliability of financial reports.

$H_0$3: Financial technology does not help to mitigate financial reporting risks.



## 4.0 Results and Discussion

### 4.1 Characteristics of the Respondents

Table 1 shows the profile of the 76 respondents.

**Table 1: Profile of Respondents**

| *Variable* | *Category* | *Freq* | *Percent* | *Valid Percent* | *Cum. Percent* |
|---|---|---|---|---|---|
| Sector | Financial Services | 20 | 26.3 | 26.3 | 26.3 |
| | Manufacturing | 9 | 11.8 | 11.8 | 38.2 |
| | Wholesale & Retail Trades | 15 | 19.7 | 19.7 | 57.9 |
| | Professional Services | 16 | 21.1 | 21.1 | 78.9 |
| | Transport & Logistics | 4 | 5.3 | 5.3 | 84.2 |
| | Chemicals | 6 | 7.9 | 7.9 | 92.1 |
| | Petroleum Marketing | 6 | 7.9 | 7.9 | 100.0 |
| Size | Small | 34 | 44.7 | 44.7 | 44.7 |
| | Medium | 28 | 36.8 | 36.8 | 81.6 |
| | Large | 14 | 18.4 | 18.4 | 100.0 |
| Location | Lagos Island | 44 | 57.9 | 57.9 | 57.9 |
| | Lagos Mainland | 32 | 42.1 | 42.1 | 100.0 |
| Ownership | Public Liability Companies | 12 | 15.8 | 15.8 | 15.8 |
| | Private Companies | 40 | 52.6 | 52.6 | 68.4 |
| | Partnerships | 10 | 13.2 | 13.2 | 81.6 |
| | Sole Proprietorship | 14 | 18.4 | 18.4 | 100.0 |

*Source: Authors' compilation, 2022*

### 4.2 Analysis of Responses

The response of the respondents, based on their levels of agreement on the various statements in the questionnaire are analyzed below.

**Statement 1: Financial Technology impacts financial reporting in Nigeria**

Asked if they agree that financial technology impacts financial reporting in Nigeria, 29 (38.16%) of the respondents strongly agreed while 33 (42.43%) of the respondents agreed to the statement. One (1.32%) of respondents was neutral while eight (10.53%) and five (6.57%) disagreed and strongly disagreed to the statement respectively as shown in table 2. The responses largely confirm that financial technology has impacts on financial reporting in Nigeria.

**Table 2: Financial Technology impacts financial reporting in Nigeria**

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 5 | 6.6 | 6.6 | 6.6 |
| | Disagree | 8 | 10.5 | 10.5 | 17.1 |
| | Undecided | 1 | 1.3 | 1.3 | 18.4 |
| | Agree | 33 | 43.4 | 43.4 | 61.8 |
| | Strongly Agree | 29 | 38.2 | 38.2 | 100.0 |
| | Total | 76 | 100.0 | 100.0 | |

*Source: Authors' survey, 2022*



**Statement 2: Financial technology supports the timely preparation of financial reports**

Asked if they agree that financial technology supports the timely preparation of financial reports, 41 respondents, representing 53.95% of total respondents strongly agreed while 17 or 22.37% agreed. Nine (11.84%) were neutral while five (6.58%) and four (5.26%) of the respondents agreed and strongly disagreed respectively. The level of agreement of 76.32% confirms that financial technology supports the timely preparation of financial reports**.**

**Table 3: Financial technology supports the timely preparation of financial reports**

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 4 | 5.3 | 5.3 | 5.3 |
| | Disagree | 5 | 6.6 | 6.6 | 11.9 |
| | Undecided | 9 | 11.7 | 11.7 | 23.6 |
| | Agree | 17 | 22.4 | 22.4 | 46.0 |
| | Strongly Agree | 41 | 54.0 | 54.0 | 100.0 |
| | Total | 76 | 100.0 | 100.0 | |

*Source: Authors' survey, 2022*

**Statement 3: Financial technology enhances the accuracy of information presented in financial reports**

Asked if they agree that financial technology enhances the accuracy of information presented in financial reports, 33 respondents, representing 43.42% of total respondents strongly agreed while 27 or 35.53% agreed. Seven (9.21%) were neutral while five (6.58%) and four (5.26%) of the respondents agreed and strongly disagreed respectively. Based on the level of agreement of 78.95%, it can be concluded that financial technology enhances the accuracy of information presented in financial reports.

**Table 4: Financial technology enhances the accuracy of information presented in financial reports**

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 4 | 5.3 | 5.3 | 5.3 |
| | Disagree | 5 | 6.6 | 6.6 | 11.9 |
| | Undecided | 7 | 9.2 | 9.2 | 21.1 |
| | Agree | 27 | 35.5 | 35.5 | 56.6 |
| | Strongly Agree | 33 | 43.4 | 43.4 | 100.0 |
| | Total | 76 | 100.0 | 100.0 | |

*Source: Authors' survey, 2022*



**Statement 4: Financial technology enhances the relevance and reliability of financial reports**

On the statement that financial technology enhances the relevance and reliability of financial reports, 32 respondents, representing 42.10% of total respondents strongly agreed while 26 or 34.21% agreed. Seven (9.21%) were neutral while eight (10.53%) and three (3.95%) of the respondents agreed and strongly disagreed respectively. Since, 76.12% agreed with the statement, it can be concluded that financial technology enhances the relevance and reliability of financial reports.

**Table 5: Financial technology enhances the relevance and reliability of financial reports**

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 3 | 4.0 | 4.0 | 4.0 |
| | Disagree | 8 | 10.5 | 10.5 | 14.5 |
| | Undecided | 7 | 9.2 | 9.2 | 23.7 |
| | Agree | 26 | 34.2 | 34.2 | 57.9 |
| | Strongly Agree | 32 | 42.1 | 42.1 | 100.0 |
| | Total | 76 | 100.0 | 100.0 | |

*Source: Authors' survey, 2022*

**Statement 5: Financial technology helps to mitigate financial reporting risks**

When asked if they agree that financial technology helps to mitigate financial reporting risks, 50 respondents, representing 65.79% of total respondents strongly agreed while 13 or 17.10% agreed. Three (3.95%) were neutral while three (3.95%) and seven (9.21%) of the respondents agreed and strongly disagreed respectively. Since, 82.89% agreed with the statement, it can be concluded that financial technology helps to mitigate financial reporting risks.

**Table 6: Financial technology helps to mitigate financial reporting risks**

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Strongly Disagree | 7 | 9.2 | 9.2 | 9.2 |
| | Disagree | 3 | 4.0 | 4.0 | 13.2 |
| | Undecided | 3 | 4.0 | 4.0 | 17.2 |
| | Agree | 13 | 17.1 | 17.1 | 34.3 |
| | Strongly Agree | 50 | 65.7 | 65.7 | 100.0 |
| | Total | 76 | 100.0 | 100.0 | |

*Source: Authors' survey, 2022*

### 4.3 Hypothesis Testing

Under this section, the hypotheses are restated and tested based on the data obtained using the Pearson Chi-Square statistical analysis. The results are explained thereafter in relation to the hypothesis.

#### 4.3.1 Hypothesis 1

$H_0 1$: Financial technology does not impact financial reporting in Nigeria.

**Table 7: Summary of Pearson Chi-Square and Symmetric Test of Impact of Financial Technology on Financial Reporting in Nigeria**

**Chi-Square Tests**

| | Value | Df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square | 29.886[a] | 24 | .189 |
| Likelihood Ratio | 29.621 | 24 | .198 |
| Linear-by-Linear Association | .358 | 1 | .550 |
| N of Valid Cases | 76 | | |

a. 29 cells (82.9%) have expected count less than 5. The minimum expected count is .05.

The test of Pearson Chi-Square result presented in table 7 above indicate that financial technology impacts financial reporting in Nigeria, ($\chi^2(24) = 29.89$, $p \leq .001$). Therefore, since the calculated Pearson Chi-Square is greater than the tabulated Chi-Square, the null hypothesis which states that “financial technology does not impact financial reporting in Nigeria” is rejected.

#### 4.3.2 Hypothesis 2

$H_0 2$: Financial technology does not enhance the relevance and reliability of financial reports.

**Table 8: Summary of Pearson Chi-Square and Symmetric Test showing the impact of financial technology on the relevance and reliability of financial reports.**

**Chi-Square Tests**

| | Value | df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square | 28.521[a] | 24 | .239 |
| Likelihood Ratio | 30.460 | 24 | .170 |
| Linear-by-Linear Association | .001 | 1 | .980 |
| N of Valid Cases | 76 | | |

a. 31 cells (88.6%) have expected count less than 5. The minimum expected count is .16.

The result from the Pearson Chi-Square test presented in Table 8 above indicates that financial technology enhances the relevance and reliability of financial reports, ($\chi^2(24) = 28.52$, $p \leq .001$). Therefore, since the calculated Pearson Chi-Square is greater than the tabulated Chi-Square, the null hypothesis which states that “financial technology does not enhance the relevance and reliability of financial reports” is rejected.

### 4.3.3 Hypothesis Three

$H_0$3: Financial technology does not help to mitigate financial reporting risks.

**Table 9: Summary of Pearson Chi-Square and Symmetric Test showing Impact of Financial Technology on Financial Reporting Risks.**

**Chi-Square Tests**

| | Value | df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square | 28.521[a] | 24 | .239 |
| Likelihood Ratio | 30.460 | 24 | .170 |
| Linear-by-Linear Association | .001 | 1 | .980 |
| N of Valid Cases | 76 | | |

a. 31 cells (88.6%) have expected count less than 5. The minimum expected count is .16.

The test of Pearson Chi-Square result presented in table 9 above indicates that financial technology helps to mitigate financial reporting risks, ($\chi^2(24) = 28.52$, $p \leq .001$). Since the calculated Pearson Chi-Square is greater than the tabulated Chi-Square, it implies that the null hypothesis which states that "Financial technology does not help to mitigate financial reporting risks" is therefore rejected.

## 4.4 Findings and Implication of Findings

The outcome of this study confirmed that financial technology significantly impacts financial reporting and the adoption of financial technology helps to mitigate financial reporting risks. The data obtained and tested concluded that the use of financial technology can be a mitigant to financial reporting risks. This is mostly because technology helps firms to track and record financial transactions more accurately and in a timely manner. The automation of the financial reporting process could also help to raise early signals and warnings that should be corrected before the submission and publication of financial reports. While there is still the possibility of operational risks through system errors and failures, the mitigation of other operational risks through reduced human involvement would help to mitigate the risks.

The implication of the findings is that investment in financial technology for financial reporting purpose is good and would help to mitigate risks associated with the financial reporting.

## 5. Summary and Conclusion

This paper examines the impact of financial technology on financial reporting risks in Nigeria. The study employed a correlational survey using questionnaire to collect relevant data on a five-point Likert scale based on Level of Agreement from randomly selected firms in Nigeria. The data collected were analysed using the Pearson Chi Square to test the hypotheses. From the review of related literature and data analysis, the paper concluded that information technology has a significant impact on financial reporting in Nigeria; that financial technology enhances the relevance and reliability of financial reports and that financial technology helps to mitigate financial reporting risks in Nigeria.

Based on the findings and conclusion, it is recommended that firms consider investment in financial technology to aid the financial reporting process. Not only would the firm reduce the risks of reporting and publishing inaccurate financial information which lead to reputational damage to the company, the company would also reduce the cost of penalty and fines paid to regulatory bodies due to late filing of returns and other associated costs.



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