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THE MODERATING EFFECT OF AUDIT QUALITY ON THE THIRD-PARTY DISCLOSURES AND FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA.

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Abstract
This study examines the moderating effect of audit quality on third-party disclosures and the financial performance of listed manufacturing firms in Nigeria. The study covered the period 2018 to 2022, and the data were analyzed using descriptive statistics and Partial Least Square Structural Equation Modeling (PLS-SEM). The empirical results show that third-party disclosure has a significant positive effect on manufacturing firms' financial performance. The moderating effect of audit quality on this relationship was significant. The findings also reveal that third-party disclosure has a significant effect on audit quality. This study concludes that third-party disclosure influences manufacturing firms' financial performance, particularly third-party receivables and sales. This study recommends that third-party sales should be encouraged and that there should be more transparency in reporting third-party transactions because doing so enhances financial performance among other factors in the manufacturing sector.

1. Introduction

The structure of Nigeria's economy has changed significantly. Its economy has transformed from a focus on agriculture to manufacturing and services. In 2020, manufacturing accounted for approximately 27% of Nigeria's GDP. The sector is growing faster than the oil, gas, telecommunications, and agricultural sectors. The combination of the cheap and plentiful labor force and its vast market, both within and beyond the country, has created employment opportunities, tax revenue increases, local and foreign direct investment and, most significantly, the development of other industries. However, the effective management of these other industries has left much to be desired. In other words, fewer than two-thirds of the businesses that started in 2018 remained in operation for three years. In their fourth year (2022), 42.7% had shuttered, and by the fifth year in 2023, the new business failure rate reached 48%. Some of these companies are mismanaged and eventually collapse before

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their maturity phase through transactions such as third parties (MAN 4th Q Bulletin 2023). (Abere & Saka 2023) opined that the manufacturing sector in Nigeria operates in the current unstable environment, which is fraught with numerous risks that could endanger its survival and success. These risks include political, credit, liquidity, foreign exchange, market, and interest rate risks.

The adoption of IFRS has made it possible for users of financial statements to easily comprehend and understand financial reporting and make informed decisions. According to the International Accounting Standard (IAS) 24, a third-party transaction is a transfer of resources, services, or obligations between a reporting entity and a third party, regardless of whether a price is charged. While a third party is related to an entity (it is a related party) in any of the following circumstances: the party controls the entity or is controlled by it if it has significant influence over the entity, It has joint control over the entity, the parties are under common control, the party is an associate, the party is a joint venture in which the entity is a venture, the party is a member of the key management personnel of the entity or its parent, and the party is a close family member of any of the above.

Disclosures that improve transparency, comparability, accountability, and investment potential are essential to inform users of financial statements about the potential risks and benefits associated with third-party transactions. Thus, disclosure is the medium of communication between the entity and the external environment. The absence of sufficient information can cause ignorance in the securities market, ultimately leading to misallocation of resources (Nguyen, Tran, Le, Dinh, Van, Pham & Nguyen, 2023). IAS 24, which focuses on third-party disclosures in the financial statements of an entity. It outlines and requires an entity to disclose information about transactions, outstanding balances, and relationships with related parties, which include individuals, firms, and other entities that can influence the financial and operating policies of the reporting entity. According to Rokhshana and Amirus (2023), related-party disclosures are a specific type of third-party disclosure mandated by the International Financial Reporting Standards (IFRS).

However, the reliability of these financial statements is highly dependent on audit quality. Audit quality is not directly observable but can be assessed through measurable indicators, such as auditor independence, audit fees, and board characteristics (DeAngelo, 1981). However, Francis (2023) argued that a process may not be observable from the outside, but the outcomes are. The visibility of audit quality in the report (outcome) is strongly questioned by the findings of Genie, Yazdani, and Khanmohammadi (2020), which show that audit quality has a strong positive relationship with input and process factors and a moderate association with output factors.

Third-party disclosures are related to financial performance because they involve the disclosure and transparency of the financial performance of a firm as it affects related parties. Financial performance is a subjective measure of the effectiveness of a firm's utilization of its assets from its primary mode of business and generates revenue evaluated for a period in budgetary terms (Maaka, 2013). Profitability, revenue, and net assets are indicators of financial performance. The profitability of a firm is defined as the state or condition of yielding financial profits or gains (Alshatti, 2015).

The objective of International Accounting Standards (IAS) 24 is to ensure that an entity's financial statements contain sufficient disclosures to draw attention to the possibility that the entity's financial position, profits, or losses may have been affected by the existence of third parties, transactions, and outstanding balances with related parties. According to (Cho & Lim, 2018), historical information about affiliated party relationships helps to detect profit tunneling through Related Party Transactions (RPTs).

Statement of the problem

Despite the adoption of International Financial Reporting Standards (IFRS) in 2012 and the application of Nigerian Securities and Exchange Commission (SEC) regulations, concerns persist regarding the adequacy and transparency of third-party disclosures by listed firms in Nigeria. This lack of transparency raises questions about the potential impact of these disclosures on the financial performance of listed companies and the ability of investors and other stakeholders to make informed decisions. Transparency might attract more investment, leading to better financial performance, whereas inadequate disclosures might lead to greater information asymmetry, raise financing costs, or generally erode investor confidence. Although listed companies in Nigeria must disclose information about their third-party relationships, concerns exist about the completeness, timeliness, and accuracy of these disclosures. Thus, third-party disclosures may impact financial performance.

There are two main views on third-party transactions. First, efficient transaction theory considers RPTs as sound business exchanges that fulfill firms' economic needs. Therefore, they do not harm the interests of shareholders and emerge as efficient contracting arrangements in the absence of incomplete information. (Derek-Teshun & Zhien-Chia, 2010). The opposite perspective is regarded as conflict-of-interest theory, which considers RPTs as a vehicle to transfer resources from a company to related parties. RPTs may imply moral hazard and may be carried out in the interest of directors to expropriate wealth from shareholders (Kohlbeck & Mayhew, 2004; Ahmed, Ahmed & Arafat, 2018)

As a result, more attention should be paid to the disclosure of third-party transactions in financial reports (Lioara-Veronica & Camelia-Daniela, 2023; Tifanny Dwijaya Hendratama & Zuni Barokah, 2020). The high-profile scandals of WorldCom, Enron, and Adelphia are recent corporate failures that have placed third-party transactions under the public eye. In the Nigerian context, the corporate scandals of Cadbury Nigeria Plc, Unilever Brothers, African Petroleum, and Flour Mill have resulted in increased interest in analysing related party transactions and their effects on the Nigerian capital market. In recent years, related-party transactions and their disclosures have attracted the attention of investors, regulators, and researchers around the world because of their role in stakeholders' conflicts.

Moreover, disclosure is not the only factor affecting financial performance. The integrity of third-party transactions and the protection of financial performance depend on strong internal controls, impartial oversight, and an ethical company culture. Disclosure of related information is essential to a company's financial results. Stakeholders can effectively navigate the complicated landscape and make informed decisions to support sustainable financial well-being by comprehending the nuanced interplay between financial performance, disclosure, and potential risks. Maintaining the integrity of capital markets and building trust heavily depends on financial reporting transparency. Michele (2011) opined that empirical studies have focused on third-party transaction rule effects without considering complementary governance mechanisms and the risk of potential overlap with existing accounting concepts and disciplines. Although third-party disclosure is required by the IAS 24, its possible effects on a company's financial performance are still up for discussion. Therefore, this study examines the moderating effect of audit quality on third-party disclosure and the financial performance of listed manufacturing firms in Nigeria.

Objectives of the Study

The main objective of this study is to examine the moderating effect of audit quality on the third-party disclosure and financial performance of manufacturing firms in Nigeria. Specifically, to determine the following

i. The effect of third-party disclosure on firm performance in Nigeria
ii. Moderating effect of audit quality on the relationship between third-party disclosure and financial performance.

2. Theoretical Framework

This study is underpinned by Normative Accounting Theory. The theory was proposed by Siebert, Peterson, and Schramm (1956). Normative accounting theory asserts that financial statements must be transparent and reliable. Preparers of financial statements should seek to promote transparency and accountability in financial reporting by ensuring that financial statements are prepared using generally accepted accounting principles (GAAP) and other relevant regulations and standards. Beerbaum (2019) affirmed that this theory plays an important role in promoting ethical and responsible accounting practices, guidelines for avoiding conflicts of interest, maintaining confidentiality, and ensuring that financial information is used for legitimate purposes, which are essential for ensuring the accuracy and reliability of financial information and maintaining public trust in the accounting profession. However, integrity can be distorted due to intentional or unintentional misrepresentation or manipulation of financial information. This can happen for a variety of reasons, such as concealing financial problems, boosting financial performance, complying with regulatory requirements, increasing bonuses, and managing utility.

Empirical Literature Review

Studies have revealed mixed results of third-party disclosure's impact over the years. Prihastiwi, Nurgraheni, & Pramudyastuti, (2023) investigated whether third-party transactions disclosure affects the value relevance of financial statements. Using 343 public firms listed on the Indonesian Stock Exchange from 2016 to 2020. The findings show that disclosure of RPTs provides incremental information to financial statements' users. The disclosure of RPTs has a significant positive relationship with abnormal returns. These findings demonstrate that providing information beyond standard requirements is beneficial to financial statement users. They recommended replication of this study on non-Asia continents for more comprehensive generalization.

Nguyen, Tran, Le Ong, Dinh, Van, Sham, and Nguyen (2023) studied the effect of related party transactions (RPTs) on firm value (FV) with the moderating role of corporate social responsibility (CSR) in the context of an emerging market in Vietnam for the period 2015-2019. This study uses regression panel data for 625 listed firms. The study found that RPTs affect corporate value. This study was carried out in Asia, where economic indices are not the same as the Nigerian economy, and over a period that is non-reflective of current economic realities.

Zimon, Andrea, Hossein Seyedmohammadali, & Ebrahim, (2021). Earnings Management, Related Party Transactions, and Corporate Performance: The Moderating Role of Internal Control. The study sample includes 108 Iranian manufacturing companies listed on the Tehran Stock Exchange (TSE) between 2013 and 2018, and panel data with random effects are used to test the hypotheses. The results show that there is a negative association between real earnings management (REM) and corporate financial situations, whereas accrual-based earnings management (AEM) and firm value are positively correlated. However, when Tobin's Q index is defined as a proxy for corporate performance, the result does not show any significant association. They recommended that future research should consider measurements of variables that are different from those in this study. Furthermore, given that the period of the present study in Iran coincides with a financial crisis caused by sanctions and that the sampled companies may differ in terms of size, organizational structure, and product type, generalization of our results should be made with caution. In addition, future research should evaluate the hypotheses of this research in developed markets, where companies have good economic conditions, to determine how managers will behave regarding earnings management and related party transactions.

Mingche, Shimei, & Guangdong, (2018) investigated Corporate Social Responsibility and the Long-Term Performance of Mergers and Acquisitions: Do Regions and Related-Party Transactions Matter? Using data from listed firms in the Shanghai and Shenzhen stock exchange markets in China. The results indicate that CSR has a positive effect on long-term M&A performance. These results indicate that the synergy of CSRs could also be generated in M&A activities. They recommended that future studies should be conducted while taking cognizance of the differences in the degrees of market development, regulations, and CSR awareness.

Osakuni and Onuora (2019) examined the effect of Related Party Transactions on the Financial Performance of Companies listed in Nigeria from 2008 to 2015. The study used simple regression analysis. This study examined financial performance proxied by return on equity (ROE) and net worth (NW) as dependent variables while related party transactions, which is a summation of the directors' dividend, key personnel management expenses, and Rp Expenses served as independent variables. The study found that related party transactions did not significantly influence the financial performance of Nigerian conglomerates.

Based on the literature review, investors, board management, policymakers, and scholars are interested in the subject of third-party disclosure and financial performance. For instance, Bona-Sánchez, Lorena Fernández-Senra, and Jerónimo Pérez-Alemán (2017) studied related-party transactions, dominant owners, and firm value. The findings reveal that financial, operating, and investment dimensions of RPTs negatively affect firm value due to the presence of an expropriation effect, whereby RPTs are driven by insiders' opportunism, regardless of the dimension (financial, operating, and investment) affected by the existence of RPTs. They suggested that future research should analyze the interactions between governance variables and RPT measures on firm value. The interactions between the use of RPTs and the properties of accounting earnings, particularly the use of RPTs as a vehicle for earnings management in the Spanish context.

Phung Anh Thu, Pham Quang Huy, and Le Huu Tuan Anh (2023) evaluated the relationship between related party transactions (RPT) and accounting comparability (AIC). Findings showed a positive relationship between RPT and AIC. They recommended that investors should group companies with transparency regarding their RPT disclosure because these companies may have better financial reporting quality and easily compare in future research. Tifanny and Zuni (2020) investigated related party transactions and firm value: The moderating role of CSR reporting in Indonesia. The study found that key undefined personnel transactions do not affect banks' value, whereas subsidiary transactions negatively and Market value and related party transactions significantly affect the value of these banks. They recommended that future studies should consider other types of RPTs or break the RPT categories examined into more detailed components.

Although some aspects of third-party disclosure have been researched from varying perspectives across the globe, these studies seem to have conflicting views of the effect of third-party transactions on firm performance (Najib & Faozia 2023; Anita & Christiana, 2022). Again, few studies have examined the Nigerian economy. Moreover, scant studies on the Nigerian scene have majored in related party transactions and performance using regression analysis models within the theoretical framework of agency theory, (Okoro, G., & Jeroh, E., 2016; Osakuni & Onuora, 2019). Furthermore, certain studies have suggested that a firm's performance may differ from country to country and sector to sector. Hence, further research into the moderating effect of audit quality on third-party disclosure and the financial performance of listed manufacturing firms in Nigeria using PLS-SEM within the theoretical framework of normative accounting theory is necessary.

Conceptual framework and hypothesis formulation

This study aimed to evaluate the relationship between third-party disclosure and financial performance and how audit quality moderates this relationship. The conceptual framework is presented in Figure 1

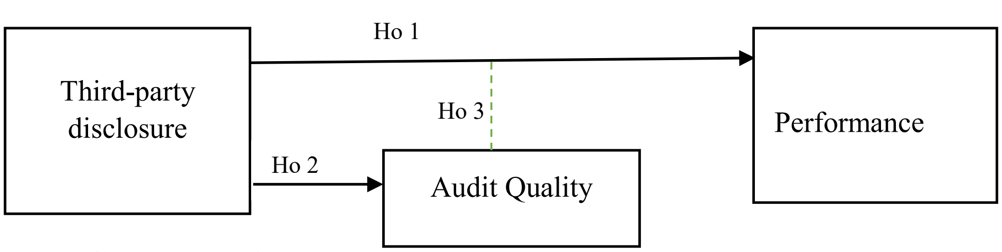

Figure 1. Conceptual framework

To achieve the objective of this study, the following hypotheses were developed.

H_{o1}: There is no significant impact of third-party disclosure on the financial performance of listed manufacturing firms in Nigeria.
H_{o2}: There is no significant influence of third-party disclosure on the audit quality of listed manufacturing firms in Nigeria.
H_{o3}: There is no significant moderating effect of audit quality on the relationship between third-party disclosure and the performance of listed manufacturing firms in Nigeria.

3. Methodology

This study employed an ex-post facto research design because the data to be used for analysis were already in existence. The population is made up of all the (21) listed manufacturing firms in Nigeria as of 31 December 2022. To focus on firms that have the required data, such as disclosure of third-party loans, sales, purchases, receivables, and payables, and, most importantly, stayed in the exchange during the 5 years of the study, the study adopted the purposive sampling technique. To avoid missing data, consistency in preparing annual reports is also important for the study. Based on these three criteria (i.e. companies that disclose third-party transactions in their annual reports, stayed for over 5 years on the exchange, and prepared reports consistently during the period), seventeen (17) firms were selected as the sample for this study. Data were extracted from the annual reports and financial statements of the sampled seventeen (17) listed manufacturing firms on the Nigeria Stock Exchange as of 31 December 2022 for the period of five (5) years spanning from 2018 to 2022.

Data Analysis Technique

Descriptive analysis and Partial Least Square Structural Equation Modeling (PLS-SEM) were used to analyze the data. PLS-SEM allows for the calculation of multiple and interconnected dependent interactions between variables at the same time, as well as the use of unobserved variables. Using PLS-SEM analysis in this study makes the incorporation of formative measurements into a structural equation model much simpler. Indicators are called formative indicators when they represent different aspects of the latent variables; in other words, they form the latent variable. Formative measurements have high practical relevance to third-party disclosure because every form of third-party disclosure, whether it is third-party sales or third-party purchases, captures a specific aspect of the latent construct ‘third-party disclosure’.

PLS-SEM Model Discussion

The proposed model for the relationship between third-party disclosure and performance is illustrated in Figure 2. The model was framed using latent constructs, Third-Party Disclosure, Performance, and audit quality to demonstrate the structural connection between the variables.

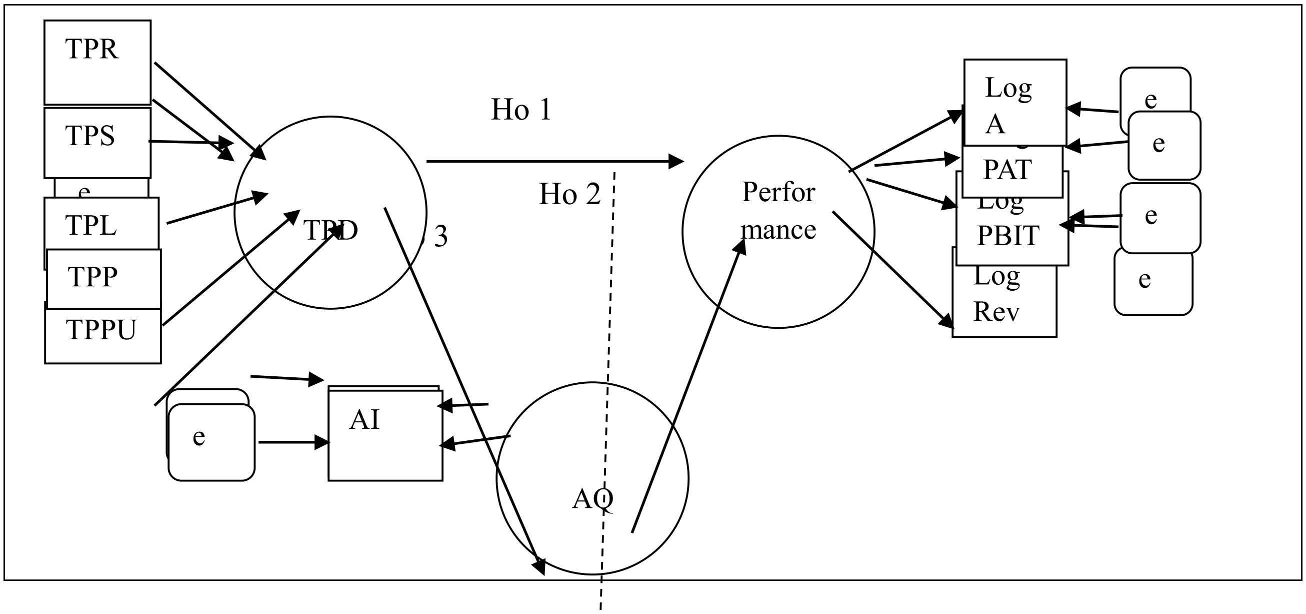

Figure 2: Structural Diagram

From the diagram in Figure 2, the latent construct, Performance (Performance), is designed with reflective indicators of Log of Assets (log A), log of Profit After Tax (Log PAT), Log of Profit Before Interest and Tax (log PBIT), and Log of Revenue (log Rev), while the latent construct, Third-Party Disclosure (TPD), has Third-Party Receivable (TPR), Third-Party Sales (TPS), Third-Party Loans (TPL), Third-Party payable (TPP), and Third-Party Purchase (TPPU) as formative indicators. Whereas the moderating variables, audit quality is also a latent construct with audit fees (AF) and auditor independence (AI) as its indicators. A straight arrow from the latent variable to the indicator variable (as shown between Performance and log A, log PAT, log PBIT and log Rev; as well as between Audit Quality and AF, and AI) indicates that the indicator is reflective, i.e., the indicator reflects the latent variable.

Moreover, each reflective indicator is error-prone. Whereas a straight arrow from an indicator variable to a latent variable (such as between TPR, TPS, TPL, TPP and TPPU above) indicates that the indicator is formative. Unlike reflective indicators, formative indicators are assumed to be error-free; however, the error term in the formative construct is intended to cover all additional construct causal factors that were not considered by the model (Diamantopoulos & Siguaw, 2006). The dashed red arrow links audit quality to the straight red arrow linking third-party disclosure to performance is the moderating effect line. The definitions of these variables are presented in Table 1.

Table 1: Variables and Measurements

Variable	**Type**	**Measurement**	**Apriori Expectation**
Third-Party Disclosure	latent exogenous	TPR, TPS, TPL, TPP, and TPPU	Positive
TPR	Indicator of TPR	Total number of third-party receivables	
TPS	TPS indicator	Total third-party sales	

TPL	Indicator of TPL	Total number of third-party loans	
TPP	Indicator of TPP	Total of Third-Party Payables	
TPPU	Indicator of TPPU	Total third-party purchases	
Performance	latent exogenous	Assets, PAT, PBIT, and Revenue	Positive
Assets	Indicator of performance	Log of Assets	
PAT	Indicator of performance	Log of Profit After Tax (PAT)	
PBIT	Indicator of performance	Log of Profit Before Interest and Tax (PBIT)	
Revenue	Indicator of performance	Log of Revenue (Rev)	
Audit quality	latent exogenous	Big 4 Firms, Audit Fees, and Auditors' Independence	Positive
Audit Fee	Indicator of audit quality	Auditors' payment	
Auditors Independence	Indicator of audit quality	Number of years of engagement	

Source: computed by the researchers (2024)

Sources of Data Collection Methods

This study used secondary data collected over a period of 5 years from 2018 to 2022. This scope was adopted because it captures the current inflationary period and its economic reality in Nigeria, which will be more relevant in future economic policymaking and implementation. Data for this study were gathered from annual reports on manufacturing firm websites and NSE fact books.

4. Data Analysis and Findings

Descriptive Statistics

The sample statistics show the mean, standard deviation, minimum, and maximum values of all variables from which the observed variables were computed. These values are summarized in Table 2.

Table 2: Descriptive Statistics

Variables	Mean	Standard Deviation	Min	Max
Audit quality	0.000	1.000	-0.553	5.338
Fin. Performance	0.000	1.000	-2.661	1.071
Third-party Disclosure	0.000	1.000	-0.679	3.497

Source: SmartPLS 4 output (2024)

The mean, minimum, maximum, and standard deviation of the indicator variables are presented in Table 3.

Table 3: Statistics of indicator variables

	Mean	Min	Max	Standard deviation
Audit Fee	689	600	727	127
TP Receivable	130	-907	244	440
TP Sales	187	0.00	180	420
TP Loans	132	0.00	311	408
TP Payable	139	-690	160	277
TP Purchase	417	-105	652	109
Log Assets	23.87	15.42	27.15	3.34
Log PAT	19.56	0.00	27.03	7.79
Log PBIT	16.91	0.00	26.19	9.66
Log Revenue	20.13	0.00	27.45	9.04

Source: Researcher's computation (2024)

Partial Least Square Structural Equation Modeling (PLS-SEM) Results

The PLS-SEM results are assessed in two parts: the assessment of outer models, which evaluate the relationship between indicators and constructs, and the assessment of the inner model, which evaluates the relationship between constructs. These results are summarized in SmartPLS 4 output in Figure 3

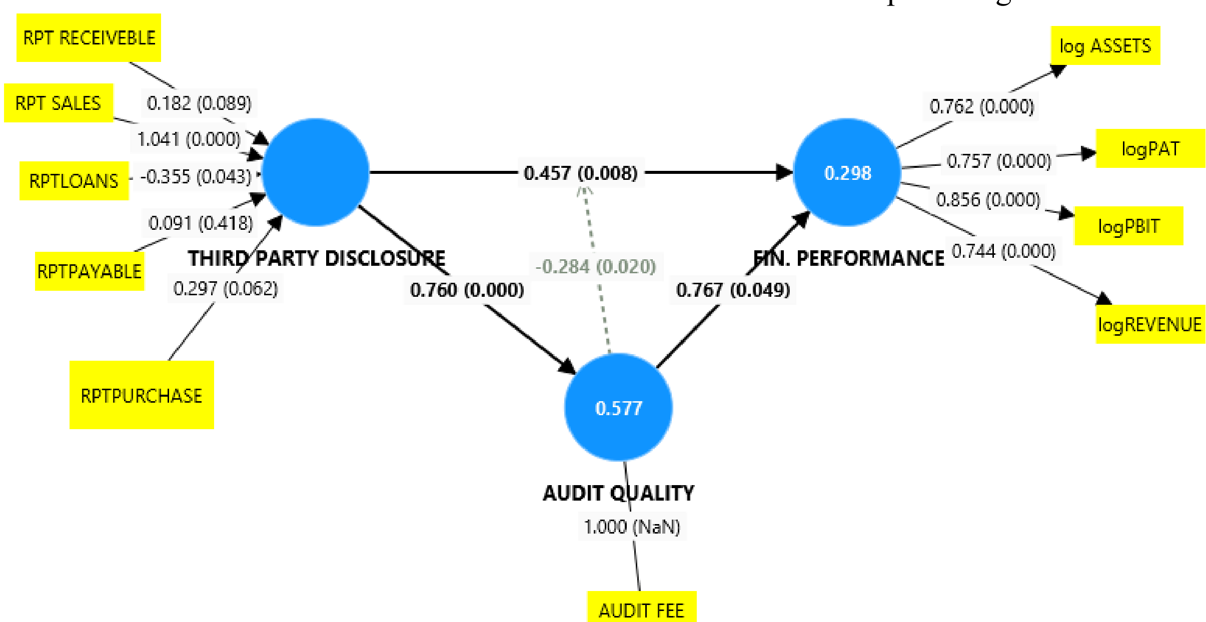

Figure 3. PLS-SEM

Source: Smartpls 4 output (2024)

Assessment of Outer Models

Formative constructs are assessed using outer model weights and indicators' face validity. Table 4 presents the results of these assessments.

Table 4: Indicator loading/weight

	Loading	Weight
TP RECIVEBEL->TPD		0.182
TP SALES-> TPD		1.041
TP LOANS-> TPD		-0.355

TP PAYEBLE-> TPD		0.091
TP PURCHASE -> TPD		0.297
Log Assets -> PERF	0.762	
Log PAT-> PERF	0.757	
Log PBIT-> PERF	0.856	
Log Revenue-> PERF	0.744	
Audit Fee-> Audit Quality	1.000	

Source: SmartPLS 4 Output (2024)

As shown in Table 4, third-party sales (TPS) have the highest weight at 1.041, third-party purchases (TPPU) incentive at 0.297, third-party receivables (TPR) at 0.182, and third-party payable (TPP) at 0.091. The least among the indicators of third-party disclosure is third-party loan with a negative weight of 0.355. The outer model weight represents the influence of an indicator on the description of its corresponding latent variable when all other indicators' impacts are controlled (Cenfetelli & Bassellier, 2009). Although the PLS-SEM method removes indicators with insignificant weights, formative indicators are primarily assessed by their face value or face validity. Any alterations to a formative construct by dropping indicators based on weights or other metrics may change the definition of the latent variable.

Unlike a formative construct that takes its value from the indicators, reflective indicators are interpreted as taking their values from the construct and ‘reflect’ the construct. Thus, face value does not count in their assessment; they are assessed for reliability and validity using indicator reliability (measured by indicator loadings), internal consistency reliability (measured by composite reliability and Cronbach’s Alpha), convergent validity (measured by Average Variance Extracted) and discriminant validity (measured by Fornell Larcker Criterion). An indicator is considered reliable if its loading is +/0.7 and Loading measures, the proportion of changes in an indicator explained by the construct. Log Asset, log PAT, log PBIT, and log REV have performance loadings of 0.762, 0.757, 0.856, and 0.744 respectively on performance; while having AI loading of 1.000. Each of the indicator loads shown in Figure 3 and Table 4 are above the benchmark and are therefore considered reliable.

Table 5: Composite Reliability and Convergent Validity

	Cronbach's alpha	Composite reliability (rho_a)	Average variance extracted (AVE)
Fin. Performance	0.790	0.800	0.610

Source: SmartPLS 4 Output (2024)

The rule of thumb is that a construct with a Cronbach's alpha and Composite Reliability of 0.7 and above; and AVE of 0.5 and above are considered reliable. Fin. Performance has a Cronbach’s Alpha of 0.790 and Composite reliability of 0.800, as shown in Table 4.4. This indicates strong internal consistency reliability—a test of how well the indicators reflect the construct. Cronbach’s alpha and Composite Reliability represent the lower and upper bands of internal consistency reliability, respectively (Rajesh, 2015). Convergent validity, measured by AVE, is high for financial performance at 0.610. This indicates that the set of indicators for financial performance is related.

In determining the discriminant validity of a construct, the square root of the AVE was compared with the correlation of the construct with all other constructs in the model (either reflective or formative). The construct is valid if the square root of the AVE is greater than the correlation. This procedure is known as the Fornell–Larcker Criterion.

Table 6: Fornell–Larcker criterion

	Audit quality	Fin. Performance
Audit quality	1.000	
Fin. Performance	0.307	0.781

Source: Smart PLS 2024

The √ for Fin. Performance (i.e.√0.610 = 0.781), as shown in Table 4.5, was greater than the correlation between Fin performance and audit quality (0.307). This assessment shows that indicators that are not related are not related.

Assessment of the Inner Model

This evaluation consists of two main assessments: the structural model path coefficient and the overall model estimation (i.e. coefficient of determination [R^2] and effect size [F^2])

Table 7: Path Coefficient

	Original Sample (O)	**Standard deviation (STDEV)**	**T Statistics (O/STDEV)**	**P Values**
Third-party-> Audit quality	0.760	1.000	2.669	0.000
Third-party disclosure-> Fin. Performance	0.457	1.000	0.761	0.000
Audit quality x Third-party disclosure -> fin. performance	-0.284	1.000	1.962	0.000

Source: Smart PLS 2024

The effect of third-party disclosure on Fin Performance is significant at 5% with a path coefficient of 0.457, as shown in Table 7, indicating that third-party disclosure boosts manufacturing performance. Third-party disclosures' effect on audit quality is insignificant, with a path coefficient of 0.760, indicating that third-party disclosure has no significant effect on the audit quality of manufacturing firms. The moderating effect of audit quality on third-party disclosure (Audit Quality x third-party disclosure-> Fin. Performance is insignificant with a path coefficient of 0.284, indicating that audit quality has no significant moderating effect on the relationship between third-party disclosure and Fin. Performance.

Table 8: R-squared values

	R-Square	**R-Square adjusted**
Audit quality	0.577	0.572
Fin. Performance	0.298	0.272

Source: SmartPLS 4 Output (2024)

The R-squared value of audit quality in the model was 0.577, and an adjusted R-squared value of 0.572 indicates over 50% predictive accuracy of the model. The performance also exhibited an R-squared value of 0.298.

The second overall model estimation criterion is the F^2 effect size measure (also known as 'R^2 Change') is the change in R^2 when a causal (exogenous) variable is dropped from the model. The larger the F^2 value, the less the explained variance in the endogenous variable when the exogenous variable is omitted.

Table 9: F-squared values

	Audit quality	Fin. Performance	Third-party disclosure	Audit quality x third-party disclosure
Audit quality		0.065		
Fin. Performance				
Third-party disclosure	1.367	0.119		
Audit quality x third-party disclosure		0.105		

Source: SmartPLS 4 Output (2024)

The effect size value from 0.02 to 0.14 is considered a small effect size, 0.15 to 0.34 is considered a medium effect size, and 0.35 and above is considered a high effect size (Cohen, 1988). Based on these criteria, the F-square of Audit quality-> Fin Performance, third party-> Fin Performance, and audit quality x third party disclosure were all small at 0.065, 0.119, and 0.105, respectively.

Hypotheses Testing

The null hypotheses developed at the beginning of the study were tested based on the significance of the path coefficient, as shown in Table 7.

Table 10: Hypothesis testing

	Hypothesis	Path coefficient	P Value	Reject
H_{o1}	Third-party disclosure has no significant impact on the performance of listed manufacturing firms in Nigeria.	0.457*	0.008	**yes**
H_{o2}	Third-party disclosure has no significant influence on the audit quality of listed manufacturing firms in Nigeria.	0.760*	0.000	**yes**
H_{o3}	There is no significant moderating effect of audit quality on the relationship between third-party disclosure and the performance of listed manufacturing firms in Nigeria.	-0.284*	0.020	**yes**

***Significant @ 5%**

*****Insignificant**

Table 10 shows that H_{o1} and Ho2, which suggests that there is no significant impact of third-party disclosure on the financial performance of listed manufacturing firms in Nigeria, has path coefficients of 0.457 and 0.760 and P-values of 0.008 and 0.000, respectively, which are statistically significant at 5%. Thus, this hypothesis was rejected. Also, H_{o3} suggests that there is no significant moderating effect of audit quality in the relationship between third-party disclosure and financial performance of listed manufacturing firms in Nigeria. This model has a path coefficient of -0.284 and P-values of 0.020, which is statistically significant at 5%; thus, this hypothesis is rejected.

5.0 Discussion of Findings

Third-party disclosure and financial performance

The empirical analysis of Ho1 shows that the impact of third-party disclosure and manufacturing firms' financial performance in Nigeria is significant, with a path coefficient of 0.457. This result is in agreement with the findings of earlier studies by Agustina et al. (2023). Santosa et al. (2023) Nguyen, Tran, Le Ong, Dinh, Van, Pham, and Nguyen (2023). The findings of these studies corroborate various aspects of this study. For example, Agustina et al. (2023) found a significant positive relationship between third-party disclosure and profits. These two variables, third-party disclosure, and profit, have very high weight and loading in their respective constructs, as presented in Figure 4.1. Because the constructs (third-party disclosure and financial performance) represented in this study are found to have a positive relationship, these indicators equally do. The path coefficient of 0.457 is the direct effect of third-party disclosure on financial performance (TPD -> Fin, Performance), and the indirect effect can be calculated as 0.583, i.e., the product of the path coefficients of TPD -> AQ (0.760) and AQ->TPD x Fin. performance (-0.284) as shown in Figure 4.1 and Table 4.6. The reasonable indirect effect of third-party disclosure on financial performance demonstrated the strong effect and robustness of the result. The third-party disclosures' effect on financial performance can extend to the national economy because the manufacturing sector contributed significantly (30% of Non-Import VAT and 26% of Company Income Tax as of November 2023) to Nigeria's GDP (National Bureau of Statistics, 2023). However, this result contradicts those of Matteo (2013), Godsday (2016), and Osakuni and Onuora (2019), who suggested that third-party disclosure does not affect financial performance.

Third-party disclosures and audit quality

The analysis of Ho 2 indicated that third-party disclosure has a significant effect on the audit quality of manufacturing firms in Nigeria. This can be attributed to the fact that high audit quality leads to fewer third-party disclosures and vice versa.

Moderating Effect of Audit Quality

The third hypothesis (Ho3), which sought to determine whether the presence of audit quality causes any significant changes like the relationship between third-party disclosure and financial performance, was rejected due to its significant P-value of 0.020 and path coefficient of 0.284. This indicates that there is a significant moderating effect of audit quality on the relationship between third-party disclosure and the financial performance of listed manufacturing firms. Thus, audit quality determines the strength and direction of the effect of third-party disclosure on financial performance. The mediating effect of audit quality in this study, also referred to as the 'indirect effect' of third-party disclosure on financial performance, is shown in the path: third-party disclosure -> audit quality -> financial performance, and as discussed above, is calculated (to be 0.583) only serves as a robustness test of the direct effect of the Ho1 analysis result.

6. Conclusion

For manufacturing firms in Nigeria to effectively compete with their counterparts across the globe, the Nigerian government, through its regulatory agencies, has implemented policies to ensure that an entity's financial statements contain sufficient disclosures to draw attention to the possibility that the entity's financial position or profit or loss may have been affected by the existence of third parties and transactions and outstanding balances with third parties. The objective of this study is to examine how third-party disclosure influences firms' financial performance whether audit quality has a significant impact on the relationship. The empirical results show that third-party disclosure has a significant positive effect on manufacturing firms' financial performance. The moderating effect of audit quality on this relationship was found to be insignificant. The findings also reveal that third-party disclosure has a significant effect on audit quality. These findings imply that third-party disclosure, especially third-party receivables and sales, leads to higher manufacturing firms' financial performance. Thus, this study recommends more transparency in third-party transactions to enhance financial performance in the manufacturing sector. Third-party sales should also be encouraged in the manufacturing sector.

This study examines the effect of audit quality on third-party disclosure on the financial performance of listed manufacturing firms in Nigeria. Future research could examine the moderating effect of capital structure on RPTs and firm performance because different factors have varying effects on firm performance.

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