Audit Quality and Discretionary Cash Flow among Nigerian Listed Oil and Gas Firms

By

Oke-Potefa, Oladele Sewanu
Department of Business and Entrepreneurship Education, Lagos State University of Education, Lagos-State*
&
Olabisi, Jaiyeola
Federal University of Agriculture, Alabata, Ogun-State
Email: oke-potefaos@lasued.edu.ng

Abstract

This study adopts a quantitative approach to investigate the relationship between audit quality and discretionary cash flow (DCF) among Nigerian listed oil and gas firms, specifically those listed on the Nigerian Exchange Group (NGX), over a 20-year period (2003–2022). Data were collected from the annual financial reports and disclosures of firms listed on the NGX within this timeframe. The primary focus is on measuring DCF, representing the portion of cash that firms can freely manipulate without jeopardizing operational objectives. Key independent variables representing audit quality include audit independence (β = -0.192, p = 0.010), audit fees (β = -0.597, p = 0.013), audit firm size, and audit committee size, all of which significantly reduce cash flow manipulation, indicating higher financial transparency. Conversely, longer audit tenure (β = 1.082, p = 0.000) shows a positive relationship with DCF, suggesting potential weakening of audit oversight over time. Firm leverage (β = 0.011, p = 0.035) and firm size (correlation r = 0.47) also positively influence discretionary cash flows, while sales growth exhibits a negative relationship, implying high-growth firms restrict cash management to support reinvestment. The panel regression results, with an R-squared of 89%, confirm that enhanced audit quality and sound firm governance are key factors in reducing earnings management. Overall, the findings highlight the critical role of audit quality and firm-specific factors in promoting financial transparency in Nigeria's oil and gas sector.

Keywords: Audit Quality, Discretion, Cash flow, Oil & Gas Firms, Nigeria.

1. Introduction

Financial reporting is one of the primary responsibilities of firms' management to give account of their stewardship. A firm's performance evaluation depends on financial statements, produced via the accounting process (Muslim et al., 2019). Given the significance of declared earnings as a key financial metric, they have a profound impact on various aspects of a company's operations, including business decisions, management choices, investment decisions, and performance evaluation, by providing insights into a company's financial health (Awuye, 2022). The need for financial reporting arises originally from the separation of ownership from management and control in modern day business organizations. This relationship creates conflict of interests and information asymmetry between the shareholders (principal) and managers (agent), who are involved in the day to day operations of a firm. The conflict reflects the preparation of financial statements as managers' use their discretion over accounting policies to manipulate financial information contained in published financial reports for their personal benefits at the expense of stakeholders.

The oil and gas industry is one of the vital industries to the Nigeria economy. The sector has been a major source of energy and accounted for 90% of foreign exchange earnings. The oil industry in Nigeria is classified into upstream and downstream sectors. The upstream sector encompasses activities such as acquiring mineral rights, exploring, developing, and producing oil and gas, whereas the downstream sector involves storing and transporting oil, refining and hydro-processing, and marketing and distributing oil, gas, and their byproducts. The quality of reportable earnings is very important for efficient allocation of resources in Nigeria capital markets. As accounting earning is reportable within the published monetary reports of corporations, it's expected to provide a timely and reliable input to numerous stakeholders but, the government agencies are helpful in creating prudent, effective and economical selections. Audit is brought about following the separation of ownership from control within the trendy company world.

Numerous previous studies have explored revenue recognition as a practice of earnings management, but the existing literature is quite limited. Shah and Wan (2024) investigated discretion in earnings management using distributional tests and found that firms managed earnings upwards to meet earnings forecasts by overstating revenues and understating operating expenses, without framing their findings in the context of discretionary revenue recognition. Ahmed and Sulong (2023) analyzed the unexpected portion of earnings and discovered that firms with poor reported earnings tended to underestimate special items and use discretion in revenues to increase earnings before management buyouts, without overstating revenues. They examined the use of discretionary revenues to avoid reporting negative and surprising earnings in forecasts. He found that management used discretionary revenues affecting accounts receivable and deferred revenue to smooth income.

Discretionary cash flow is a significant topic in accounting and finance literature. Kieso, Weygandt and Warfield (2020) introduced the concept of "discretionary cash flow," which represents the cash remaining after investments in projects, capital expenditures, and dividends. This concept plays a crucial role in cash flow analysis by quantifying available cash after covering costs. Analyzing cash flow involves tracking money coming in and going out; a surplus indicates the entity's potential for generating returns, provided it is not due to borrowing. Cash flow analysis is vital for assessing liquidity and profitability. Discretionary cash flow is calculated as net cash flows from operations minus capital expenditures and cash distributions, indicating excess funds for future use in various aspects of the business. Stakeholders often rely on discretionary cash flow estimates to inform their investment decisions, making it a key measure of company success.

Therefore, examining the relationship between audit quality and discretionary cash flow among Nigerian listed oil and gas firms is crucial to ensure transparency, enhance financial reporting integrity, and foster prudent resource allocation in a sector that significantly influences Nigeria’s economic stability and development.

2. Objectives of the Study

investigate the effect of audit quality on discretionary cash flow among Nigerian listed oil and gas firms;

3. Research Questions

To what extent does audit quality impact on discretionary cash flow among Nigerian listed oil and gas firms?

4. Research Hypothesis

Audit quality does not have significant effect on discretionary cash flow among Nigerian listed oil and gas firms.

5. Review of Empirical Studies

Da-silva, Oguntuase, Uchehara, Oyedokun, & Olabisi (2024) carried out a study which focused on the relationship between firm characteristics and discretionary cash flow in listed oil and gas firms in Nigeria. A longitudinal research approach was employed on a population comprising of the 12 oil and gas companies that were listed as of the last quarter of 2021 on the Nigerian Exchange Group (NGX). The study adopted secondary data from the 2002–2021 annual reports of oil and gas companies listed on the Nigerian Exchange Group while the Pooled Ordinary Least Square (OLS) regression analysis was deployed as the method of data analysis. The findings revealed that discretionary cash flow and the firm characteristics of oil and gas firms have a negative significant relationship. Based on the above findings, this study concluded that an abundance of operating cash flow lessens the propensity to participate in earnings management. The study therefore recommended that companies listed on the Nigerian Exchange Group (NGX) should abide by the governance reforms already in place in the nation, such as sufficient assessment, investigation, and scrutiny of the company's financial statement and sufficient protocols for the early identification of earnings management practices.

In a related study *Utsev, Tsegba and Tyoakoso (2023)* examined the effect of real earnings management on the financial performance of listed oil and gas companies in Nigeria. The study adopted the correlational research design. A sample size of 8 listed Oil and Gas Companies was drawn from a total population of 10 listed Oil and Gas Companies as at 31st December 2020. Panel data were extracted from the annual financial statements of listed Oil and Gas Companies for the period 2011 –2020. Panel regression analysis was conducted to evaluate the relationship between financial performance and real earnings management.

The significance of the association and relationships was tested at 5% confidence level with a 2-tailed test. The results from the study revealed that abnormal levels of cash flow from operation, abnormal level of discretionary expenses and abnormal production cost from operation have no significant effect on the financial performance of listed oil and gas companies in Nigeria proxied by profit after tax. In view of these findings, it was concluded that real earnings management has not exerted a significant effect on the financial performance of listed Oil and Gas Companies when measured in terms of real earnings management through abnormal levels of cash flow from operation, abnormal level of discretionary expenses and abnormal production cost from operation. The study therefore recommended amongst others the need for management to desist from all inclinations to indulge in real earnings management with the sole aim of presenting a deceptive performance to interested stakeholders in the organization.

Le and Nguyen (2023) analyzed the impact of board characteristics and ownership structure on upward and downward earnings management of non-financial firms listed on Hanoi Stock Exchange and Ho Chi Minh Stock Exchange. In the research, various models, including Pooled OLS, Fixed and Random effect models, and generalized least squares, were applied, followed by a regression with the System Generalized Method of Moments (System GMM) to find the most appropriate model. The findings indicated that firms with high average board age, high ownership concentration, and high financial leverage tended to manage earnings downward. High managerial ownership was associated with a reduction in downward earnings management. Moreover, firms with high state ownership were found to reduce upward earnings management.

Saona et al. (2023) studied how gender diversity and the remuneration of boards of directors influence the earnings quality of Spanish-listed firms. The sample comprised 105 non-financial Spanish firms from 2013 to 2018, resulting in an unbalanced panel of 491 firm-year observations. The primary empirical method used a Tobit semiparametric estimator with firmand industry-level fixed effects and an innovative set of measures for earnings quality developed by Star Mine. The findings indicated a positive correlation between increased gender diversity and a firm's earnings quality, suggesting that a gender-balanced board of directors

is associated with more transparent financial reporting and informative earnings. Furthermore, a nonmonotonic, concave relationship was observed between board remuneration and earnings quality.

Githaiga et al., (2022) assessed whether firm size moderates the relationship between board characteristics and earnings management (EM). Data for the study were sourced from 88 listed firms in the East African Community (EAC) during the period spanning from 2011 to 2020. The research employed the system generalized method of moments (SGMM) estimation model to address potential endogeneity and reverse causality issues. The findings indicated a positive and significant relationship between board size and EM. Additionally, the study revealed that board independence, board gender diversity, and board financial expertise exerted a negative and significant influence on EM. Furthermore, the findings confirmed that firm size acted as a moderator in the relationship between board size, board independence, board gender diversity, and EM.

Goel and Kapoor (2022) assessed the relationship between earnings management and board characteristics, specifically focusing on independence and gender diversity, within the Indian corporate sector, while considering sectorial classification. Utilizing a panel data structure, the study scrutinized the influence of sector segregation and gender diversity on earnings management practices among large public companies in India. The findings highlighted substantial variations in the magnitude of earnings management based on the relative nature of the sector. Additionally, the results indicated that women directors demonstrated greater efficacy in monitoring earnings management within their respective firms, underscoring that the mere presence of independent directors does not ensure robust corporate governance.

Kangea et al. (2022) scrutinized the relationship between board diversity and the earnings quality of non-financial firms listed on the Nairobi Securities Exchange (NSE), with ownership concentration acting as a moderator. As of December 31, 2020, the NSE had 39 non-financial firms listed. Secondary data spanning a 13-year period (2008-2020) was collected for analysis. Employing a quantitative research design and positivist research philosophy, the data underwent analysis using panel regression, alongside diagnostic and specification tests. The study found

that board diversity significantly impacted the earnings quality of non-financial firms, both in the presence and absence of ownership concentration as a moderator. The moderator model demonstrated superior performance compared to the one without ownership concentration.

Orajaka (2022) assessed the relationship between corporate board diversity, specifically foreign board membership diversity, and earnings management in non-financial companies in Nigeria. The population and final sample size were identified as 48 and 25, respectively. The study's findings indicated a negative and significant relationship between foreign board membership diversity and earnings management in non-financial firms in Nigeria. The presence of foreign members in the board of directors, along with boards comprising more independent and female directors, was associated with less prevalent earnings management.

Pratomo et al. (2022) examined the influence of various factors, including board diversity (presence of female directors, age diversity of the board of directors, educational background of board members, and the proportion of independent commissioners) and audit quality, on earnings quality. Employing quantitative methods, the population for this study comprised non-financial State-Owned Enterprises listed on the Indonesia Stock Exchange for the period 2016-2020, with 16 companies selected as research samples through purposive sampling. The results indicated that the presence of female directors, age diversity of the board, educational background of board members, the proportion of independent commissioners, and audit quality collectively affected earnings quality. The educational background of the board and audit quality individually impacted earnings quality, while the presence of female directors, age diversity of the board, and the proportion of independent commissioners did not exhibit a significant influence on earnings quality.

Contrarily, it was revealed by Orbunde et al. (2021) that audit committee financial expertise moderate audit proxy with audit firm size will not have an adverse effect on earnings management of the listed oil and gas marketing companies in Nigeria. Fourteen (14) listed oil marketing companies that had consistently published their audited annual financial reports from 2011 to 2020 was used by by the study to investigate the effect of audit quality proxied by audit firm size, auditor industry

specialization, auditor tenure, and audit committee financial expertise on earnings management represented by discretionary accruals of listed oil marketing companies in Nigeria. In addition, Pooled Ordinary Least Square (OLS) regression technique was used by the study to analyse data and the findings indicated that the interaction between audit firm size had no significant effect on earnings management.

Almarayeh et al. (2020) consolidated past studies in Jordan by a renewed investigation into the association between two auditor characteristics, namely auditor size and audit fees as well as earnings management. With a final 251 firms/year observations, similar to past Jordanian studies, over a 5-year period, the results depict no significant influence of these two proxies of audit quality and restriction on earnings manipulations in Jordan. Further, the results based upon a generalized least square regression (GLS) show a positive and significant influence of all control variables (firm size, growth and ROA), except leverage, though positive but insignificantly related to accrual earnings management. In addition, a relatively low value (18%) was reported as the adjusted R2 indicative that the totality of the explanatory variable explains only 18 percent differences in earnings management

Using data from China, Chen, Cheng, Hao and Liu (2020) investigated if and how government incentives to increase GDP growth impact firm-level earnings management. It was discovered that companies in target provinces or those with GDP growth incentives are more prone than those in other provinces to manipulate results. They discovered, specifically, that these companies have a higher propensity to overproduce, inflate their revenues, and postpone their asset impairment losses. These are the three main ways that corporate accounting numbers can influence the GDP computation; for this reason, GDP growth must be controlled using the natural log of the total gross domestic product, adjusted for inflation.

Okoro and Ihenyen (2020) investigated how sub-Saharan African enterprises' returns on assets and equity were affected by pressure from earnings management. By using the fixed and random effects statistical approach, the data were gathered from the Sub-Saharan African Stock Exchange database. Despite

the fact that earnings management places a lot of pressure on firms' performances, the study uses the proposed earnings management model to produce some intriguing results that could advance knowledge and the body of literature. According to the study, a firm's size significantly influences how the relationship between earnings management and performance of Sub-Saharan African enterprises is moderated.

Abubakar, Mazadu and Yusuf (2020) examined the impact of audit quality and earnings management of listed Insurance companies in Nigeria over the period of 5 years (2015-2019). The regression result shows that auditor independence has negative and insignificant impact on earnings management. Results from the study were limited to Thailand and therefore results may not be generalized in other locations.

Rahman, Omar, Osman and Zakaria (2020) examined the relationship between the Big four auditors and real earnings management. Using a descriptive research design, data were obtained from the top 100 firms listed on the Bursa Malaysia for a period of 8 years (2007-2014). The Big 4 audit firms were used as a proxy for audit quality while the abnormal cash flow from operations, abnormal production costs, and abnormal discretionary expenses were used to measure real earnings management. Data were analysed using the Pooled Ordinary Least Squared regression technique. Results revealed that the Big 4 audit firms have a significant and negative relationship with real earnings management. The study also found a significant and negative relationship between Price Waterhouse Cooper (PwC) and real earnings management. Findings from the study indicate that high-quality auditor constrains real activities manipulations. In addition, the results suggest that PwC is the most effective audit firm in limiting real earnings management practices among Malaysian Top 100 firms. The study concluded that an audit firm is the most effective auditor in mitigating real activities manipulation. The researchers measured earnings management using real earnings and findings may only be confined to Thailand and not generalized to other countries.

Gandía and Huguet (2020) determined whether the effect of audit fees on audit quality, measured by the level of earnings management, is affected by the type of audit (voluntary vs mandatory), as well as whether the effect of audit fees on audit

quality is different depending on the type of audit. Descriptive approach was employed by the study. The study obtained data from 6,997 Spanish SMEs from 2009 to 2018. Data were analysed using panel regression analysis. The study found that voluntary audits have higher quality when audit fees are lower, but the differences in audit quality between voluntary and mandatory audits reverse as audit fees increase, and mandatory audits are more effective at deterring earnings management when audit fees are high. The study concluded that that voluntary audits do not directly affect earnings management but instead, voluntary audits 58 are associated with abnormal fees, which in turn negatively affect earnings management. Generalizing the findings from this study may not be appropriate due to inherent differences in business and regulatory environment across countries.

Theoretical Framework

Agency theory explains the relationship between owners (principals) and managers (agents), where principals delegate decision-making authority to managers. This relationship can lead to information asymmetry, as management has inside knowledge not available to external stakeholders. Conflicts of interest may result in earnings manipulation to serve management's personal goals, lowering earnings quality. Strong corporate governance helps reduce these conflicts by overseeing management actions. Overall, the theory highlights the importance of mechanisms that align managers' interests with those of the owners.

Methodology

This study adopts a quantitative research approach to investigate the relationship between audit quality and discretionary cash flow among Nigerian listed oil and gas firms specifically those listed on the Nigeria Exchange Group (NGX), over a 20-year period (2003-2022). Data were collected from the annual financial reports and disclosures of firms listed on the Nigerian Exchange (NGX) over the specified period. The primary focus is on measuring discretionary cash flow (DCF), representing the portion of cash that firms can freely manipulate without jeopardizing their operational objectives. Key independent variables representing audit quality include audit independence, audit fees, audit firm size, audit committee size, and audit tenure. Control variables such as leverage, firm size, and sales growth are also incorporated to

account for firm-specific influences. The analysis employs a panel data regression model, structured to evaluate how each audit quality measure impacts discretionary cash flow across firms over time. Diagnostic tests, including the Durbin-Watson statistic to assess serial correlation and tests for multicollinearity, will be performed to validate the model's reliability. The analysis aims to determine whether higher audit quality—assessed through independence, fees, firm size of auditors, committee oversight, and tenure—significantly reduces discretionary cash flow, thereby indicating a mitigation of earnings management practices within the Nigerian oil and gas sector.

6. Data Presentation and Analysis

Model Specification

To be able to determine the nature of the relationship and the strength of association between the estimated earnings management the explanatory variables of consideration of this study, and the control variables, the following models are modified to suit the objectives of the study.

Therefore, the econometric specification is,

$Y_{it} = f(X_{it})$

$Y_{it} = (y_{1it}, y_{2it}, y_{3it}, y_{4it})$

$X_{it} = (y_{1it}, y_{2it}, y_{3it}, y_{4it})$

$X_{it} = (x_{1it}, x_{2it}, x_{3it}, x_{4it})$

$y_{1it} = DACC_{it}$; $y_{2it} = DCFO_{it}$; $y_{3it} = DEXP_{it}$ and, $y_{4it} = DPC_{it}$

Where:

$DCFO_{it}$ = Discretionary cash flow

$x_{1it} = AUDIN_{it}$; $x_{2it} = AUDFE_{it}$; $x_{3it} = AUDFZ_{it}$; $x_{4it} = AUDCMS_{it}$; $x_{5it} = AUDTE_{it}$

Where:

$AUDIN_{it}$ = Audit Independence

$AUDFE_{it}$ = Audit Fees

$AUDFZ_{it}$ = Audit Firm Size

$AUDCMS_{it}$ = Audit committee Size

$AUDTE_{it}$ = Audit tenure

The Control Variables (CV) is Leverage, Firm Size and Sales growth

$CV = (cv_{1it}, cv_{2it}, cv_{3it})$

$cv_{1it} = LEV_{it}$; $cv_{2it} = FZ_{it}$; $cv_{3it} = SAG_{it}$

Where:

LEV_{it} = Leverage
FZ_{it} = Firm Size
SAG_{it} = Sales growth
MODEL

$$DCFO_{it} = \alpha_0 + \beta_1 AUDIN_{it} + \beta_2 AUDFE_{it} + \beta_3 AUDFZ_{it} + \beta_4 AUDCMS_{it} + \beta_5 AUDTE_{it} + \varepsilon_{it} \quad \ldots\ldots (3)$$

$$DCFO_{it} = \alpha_0 + \beta_1 AUDIN_{it} + \beta_2 AUDFE_{it} + \beta_3 AUDFZ_{it} + \beta_4 AUDCMS_{it} + \beta_5 AUDTE_{it} + \beta_6 LEV_{it} + \beta_7 FZ_{it} + \beta_8 SAG_{it} + \varepsilon_{it}$$

Association between audit quality and discretionary cash flow

Table 1 Correlation between audit quality and discretionary cash flow

Variables	$DCFO_{it}$	$AUDIN_{it}$	$AUDFE_{it}$	$AUDFZ_{it}$	$AUDCMS_{it}$	$AUDTE_{it}$	LEV_{it}	FZ_{it}	SAG_{it}
$DCFO_{it}$	1	-0.27	-0.20	-0.26	-0.16	-0.11	0.13	0.47	-0.10
$AUDIN_{it}$		1	0.11	-0.10	0.28	-0.28	0.10	-0.25	0.35
$AUDFE_{it}$			1	0.36	0.22	0.25	-0.30	0.38	-0.06
$AUDFZ_{it}$				1	-0.33	0.44	-0.11	0.27	-0.05
$AUDCMS_{it}$					1	0.01	-0.09	0.13	0.02
$AUDTE_{it}$						1	0.07	0.37	-0.03
LEV_{it}							1	-0.40	0.25
FZ_{it}								1	-0.23
SAG_{it}									1

Source: Author's computation using EViews 12.

In Table 1, discretionary cash flow—representing the cash a company can freely utilize after mandatory expenses—shows a negative relationship with audit quality indicators such as audit independence, audit fees, audit firm size, audit committee size, and audit tenure. These findings suggest that firms with higher audit independence tend to manipulate less discretionary cash flow, while higher audit fees, larger audit committees, and longer audit tenures are associated with reduced discretionary cash management, indicating better oversight and control. Conversely, there is a positive relationship between discretionary cash flow and both leverage and firm size, implying that highly leveraged firms and larger entities may have stronger incentives or opportunities to manipulate cash flows, possibly to meet debt obligations or leverage their access to capital. Additionally, a negative association exists between discretionary cash flow and sales growth,

indicating that high-growth firms may restrict their discretionary cash, possibly due to reinvestment needs or strategic priorities. The correlation between discretionary cash flow and firm size is moderate at 0.47, while the relationships with other variables are relatively weak, underscoring the nuanced influence of these factors on cash flow management practices.

Table 2 Panel OLS effect of audit quality on discretionary cash flow
Dependent variable: $DCFO_{it}$

Variables	Coefficient	Std. Error	t-Statistic	Prob.
$AUDIN_{it}$	-0.192**	0.073	-2.611	0.010
$AUDFE_{it}$	-0.597**	0.236	-2.525	0.013
$AUDFZ_{it}$	-0.527**	0.244	-2.162	0.032
$AUDCMS_{it}$	-0.359***	0.062	-5.761	0.000
$AUDTE_{it}$	1.082***	0.190	5.708	0.000
LEV_{it}	0.011**	0.021	0.056	0.035
FZ_{it}	-8.957***	1.808	-4.954	0.000
SAG_{it}	-0.213**	0.092	-2.317	0.022
R-Squared. (R^2)		0.89 (89%)		
Adjusted R-Squared ($Adj.\overline{R^2}$)		0.875 (87.5%)		
Durbin-Watson Stat.		2.15		

*, **, *** indicates significance at 10%, 5% and 1% level of significance respectively.
Source: Author's computation using EViews 12.

The study shows that stronger audit independence, higher audit fees, larger audit firm size, and bigger audit committees significantly reduce discretionary cash flows, indicating less earnings management in Nigerian oil and gas firms. Specifically, increased audit independence (-0.192), audit fees (-0.597), firm size (-0.527), and audit committee size (-0.359) all contribute to enhancing financial transparency and oversight. Conversely, longer audit tenure positively correlates with higher discretionary cash flows, suggesting that prolonged auditor relationships may weaken audit quality and enable earnings management. Higher leverage and larger firm assets also increase discretionary cash flows, while sales growth negatively impacts them, implying that better operational performance reduces the incentive for manipulation. The model explains 88% of the variation in discretionary cash flows, demonstrating a strong fit, with no signs of spurious

regression or serial correlation. Overall, these findings highlight the pivotal role of audit quality and firm characteristics in curbing earnings management behaviors in Nigeria's oil and gas sector.

Summary

The study reveals that stronger audit independence, larger audit fees, and bigger audit firm size are associated with reduced earnings management, indicating improved financial transparency and resource use. Larger audit committees also enhance oversight, further decreasing manipulation. Conversely, prolonged audit tenure and higher leverage increase the risk of cash flow manipulation, while larger firm size and higher sales growth tend to mitigate such practices, likely due to better controls and operational performance. Overall, the model explains 88% of the variation in discretionary cash flows, underscoring the significant influence of these factors on earnings management behaviors.

Conclusion

The findings suggest that enhancing audit independence, increasing audit fees, and working with larger audit firms can effectively reduce earnings management, thereby improving financial transparency. Strong audit committees, better internal controls in larger firms, and operational growth further contribute to mitigating manipulation risks. However, prolonged audit tenure and high leverage pose challenges that may increase the likelihood of earnings management, calling for careful oversight.

Recommendation

i. Strengthen audit independence to ensure objective and unbiased assessments: Ensuring auditors maintain independence from the client reduces the risk of biased reporting and earnings management. This can be achieved through clear policies on auditor appointment, limiting non-audit services, and periodic independent reviews of auditor relationships. When auditors are free from conflicts of interest, they are more likely to provide transparent and accurate financial reporting.

ii. Regularly rotate auditors to prevent prolonged audit tenures and reduce manipulation risks: prolonged relationships between auditors and clients may lead to complacency or favoritism, which increases manipulation risks. Implementing mandatory rotation of audit firms or lead auditors at regular intervals (e.g., every 5-7 years) ensures fresh perspectives, maintains auditor objectivity, and discourages cover-ups or inflated earnings to retain auditor favor.

iii. Enhance the size and effectiveness of audit committees to improve financial oversight: Larger, well-structured audit committees with diverse expertise can provide closer scrutiny of financial statements and internal controls. Clear responsibilities and active oversight improve detection of irregularities, discourage earnings management, and enhance the credibility of financial disclosures. Encouraging independent, experienced directors to serve on audit committees is vital.

iv. Manage leverage prudently to minimize incentives for earnings manipulation: High levels of debt (leverage) impose financial pressure on firms to meet debt obligations, which may tempt managers to manipulate earnings. Firms should adopt conservative leverage policies aligned with their operational capacity. Regular monitoring and stress testing of financial health can reduce the temptation or need to manipulate reported earnings to meet targets.

v. Invest in internal controls and operational efficiency, especially in larger firms experiencing growth.: As firms grow, complex operations can create opportunities for manipulation. Robust internal controls, including automation and effective risk management processes, help detect and prevent fraudulent activities. Continuous staff training, clear policies, and regular audits are essential to ensure controls remain effective as the firm scales, reducing incentives for earnings management.

References

Abubakar, A., Abdullahi Z, Alkantara, A.K., & Saleh, I. A. (2021). Firm attributes and corporate voluntary information disclosure of listed industrial goods firm in Nigeria. *Gusau Journal of Accounting and Finance*, 2(1), 19-19.

Ahmed, A. & Duellman, S. (2007). "Accounting conservatism and board of director characteristics: an empirical analysis" *Journal of Accounting and Economics*, Vol. 43, pp. 411-437.

Awuye, I. S. (2022). The impact of Audit Quality on Earnings Management: Evidence from France. *Journal of Accounting and Taxation*, Vol. 14, pp. 52-63.

Chen, X., Cheng, Q., Hao, Y. & Liu, Q. (2020). GDP growth incentives and earnings management: Evidence from China. Review of Accounting Studies, 25(3), 1002-1039.

Da-Silva, C. A., Oguntuase, A. T., Uchehara, C. C., Oyedokun, G. E., & Olabisi, J. (2024). Firm Characteristics And Discretionary Cash Flow In Listed Oil And Gas Firms In Nigeria. *Malete Journal of Accounting and Finance*, 4(2), 95-106.

Githaiga, P. N., Kabete, M. P., & Bonareri, C. T. (2022).Board characteristics and earnings management. Does firm size matter? *Cogent Business & Management*, 9(1), 2088573.

Goel, S., & Kapoor, N. (2022). Is earnings management related to board independence and gender diversity? Sector-wise evidence from India. *International Journal of Disclosure and Governance*,19(4), 363-373.

Kangea, S. T., Nasieku, T. & Muturi, W. (2022). Effect of board diversity on earnings quality of non-financial firms listed at the Nairobi Securities Exchange. *Journal of Applied Finance & Banking*, SCIENPRESS ltd,12(3), 1-4.

Le, Q. L., & Nguyen, H. A. (2023). The impact of board characteristics and ownership structure on earnings management: Evidence from a frontier market. Cogent Business & Management, 10(1), 2159748.

Orajaka, U. P. (2022).The impact of board diversity on earnings management of aforementioned nonfinancial companies in Nigeria. *International Journal of Advances in Engineering and Management*, 4(3), 108-116.

Orbunde, B., Oyewobi, I. and Musa, U.F., 2021. Effect of audit quality on earnings management of listed oil and gas marketing companies in Nigeria. *Bingham University Journal of Accounting and Business (BUJAB*), pp.58-73.

Pratomo, D., Lestari, T. U. & Pebriyanti, R. F. (2022).The effect of board diversity and audit quality on earnings quality (Study on non-financial state-owned enterprises listed on the Indonesia Stock Exchange for the 2016-2020 Period).Proceedings of the 5th European International Conference on Industrial Engineering and Operations Management Rome, Italy.