

# Aggressive Earnings Management and Shareholders Interest in Profit Listed Oil and Gas Companies in Nigeria

OGUNBODE Olayemi Saheed; ADEGBIE Folajimi Festus; AKINWUMI D. Tosin

Babcock University, School of Management Studies, Department of Accounting, Ilishan-Remo, Ogun State.

DOI: <https://doi.org/10.51583/IJLTEMAS.2026.1501000107>

Received: 09 February 2025; Accepted: 12 February 2026; Published: 20 February 2026

## ABSTRACT

Good performance enhances shareholders interest as they provide essential capital, governance and long-term stability in anticipation of financial returns. Shareholders interest protection ensures the business capacity to fund operations, manage risks and maintain accountability and quality financial reports. Shareholders are concerned with their investment and the profitability of companies to yield maximum returns on their investment through dividends, capital appreciation and sustainable firm value. Evidence from research showed that poor profitability and poor quality of financial reports affected shareholders' confidence and interests in listed companies especially listed oil and gas companies. Literature has revealed that not many listed oil and gas companies integrated aggressive earnings management in their operations in order to attract shareholder's interest. This study examined the effect of aggressive earnings management on shareholders' interest on profitability of listed oil and gas companies for the period between 2015 -2024. Using the purposeful sampling techniques, the population of the study comprise of 14 listed oil and gas companies, using the purposeful sampling techniques, a sample eight companies were sampled for the study. The study found that discretionary accrual had positive and significant effect on shareholders' interest in profitability of the sampled firms with the coefficient 0.1824 and p-value 0.009 while auditors' independent had insignificant effect with coefficient -0.9286 and p-value 0.380 at 5% level of significant. The study concluded that discretionary accrual affected shareholders interest in oil and gas companies. In this, company with high discretionary accruals may attract regulatory attention, potentially leading to increased oversight and enforcement actions. The study recommended that management should ensure that the interest of shareholders is secured while ensuring transparency in financial reporting of quoted oil and gas companies.

**Key Words:** Auditors independent, Earnings management, Shareholders interest, Agency theory, Return on Assets

## INTRODUCTION

In the world of business today, ability to exploit every opportunity and pursue workable business tools and techniques to enhance financial performance is of paramount energetic for the success of any business. It is a well-known fact that the utmost priority of every business organization is wealth maximization. In order to maximise returns on their investments, investors typically allocate their resources to business organisations (Ahmad & Bakare, 2025). The goal of achieving a high company value is to increase shareholder wealth and entice investors to put money into the business (Mutia-Zahra, 2018).

Making returns on investment is a vital choice for businesses since it greatly affects a company's capacity to earn a profit in a competitive market and, ultimately, its capacity to survive. Any change in the firm's value brought on by operating revenue indicates a rise in the firm's value. Any company that has a decrease in its financial situation will use the "big bath" strategy to mask its losses (Waqas, 2020). Therefore, both the business and the investors will benefit from impressive financial reporting. To make wise investment decisions, capital market participants rely on the veracity of financial statements (Davis & Garcia-Cestona, 2023).

Posting false earnings might occasionally assist firms better their financial status when management predicts a loss in the future. When operating a firm, the major shareholder assigned management to the manager as an agent in the hopes that the managers would act on behalf of the owners to accomplish the company's objectives. To convert the initial data into more beneficial ones, financial managers employ earning management techniques (Durowoju et al., 2024). Financial statement manipulation is a common unethical practice used by businesses to manipulate earnings (Rahim et al., 2021).

According to Biddle et al. (2009), financial statement accuracy does, in fact, increase investment efficiency by lowering moral hazard and adverse selection for market participants. Managers may be encouraged to participate in earnings management (EM), which is the practice of influencing reported results using accounting tricks or operational choices, notwithstanding the significance of accurate financial statements. The owners and managers have different interests due to the separation of corporate ownership and management. As a result, management can use earnings management to pursue interests that align with their goals. They window dress their financial figures in order to accomplish particular objectives (Evbuumwan, 2021; Mopho & Okolie, 2023).

The issue of earnings management has been the subject of intense debate among academics over the years. The terms "big bath," "cookie jar," "window-dressing," and "income smoothing" are just a few of the terms used worldwide to characterise accounting practices that enable corporate firms to disclose their business operations in a way that does not accurately reflect the state of the business activities.

According to Waheed et al. (2022), policy decisions made throughout the accounting practice process that arise from simple contemporaneous judgement frequently manifest as accounting manipulations, which increase the likelihood of EM. Gajdosikova et al. (2022) remark that the corporation may need to make revisions to its financial accounts in order to ensure that activities continue without damaging its reputation.

Additionally, it's possible that the financial statement modification was done with the intention of deceiving shareholders. This is not to mean, however, that management is unaware that employing EM models would result in some future cash flow being lost, which will impede the goal of achieving the necessary short-term company financial performance (Ndulue et al., 2021; Mopho & Okolie, 2023). It is important to emphasize that stakeholders, particularly financial and investment experts, utilize information from a company's financial statement to assess the firm's performance when making decisions. However, the main goal of financial reporting is to be reliable in that the public is supposed to see the true statuses and accomplishments of the companies.

Recent developments in the business environment, such as the possibility of a corporate body taking over assets that were undervalued and poorly managed, have sparked interest in shareholder values (Utor et al., 2023). EM is the practice of managers using their initiative in financial reporting and transaction structuring to change financial reports in order to either influence contractual outcomes that depend on reported accounting numbers or mislead certain stakeholders about the company's underlying economic performance (Davis & Garcia-Cestona, 2023). By causing information asymmetry that supported CEOs' dishonest activity, that has to do with accounting information manipulation mostly, the response of drivers of economic activities of organisations in maintaining their stewardship function has been a major issue.

Regulatory bodies around the world, and especially the Nigerian business environment with regard to oil and gas corporations, have been increasingly concerned about aggressive earnings management. Investors and business owners typically evaluate their organisations' success based on financial data (Abdi & Soroushyar, 2025). Earnings management, which is done to present a positive image of the company's financial performance beyond the underlying economic substance, has been connected to corporate financial scandals and their failures. Regulations on financial reporting should be tightened, as evidenced by the documented cases of First Bank in 2021, where regulators found over N150 billion in non-performing insider-related loans and bad credit decisions, of which N75 billion belonged to the Board Chairman alone (Emefiele, 2021) and cases of Worldcom, Enron, and Xerox (Ahmad & Bakare, 2025; Zayol et al., 2017).

As a result, companies are under growing pressure to improve their corporate governance practices (Galek & Čičak, 2025). These demands have been based on the idea that the inherent conflict of interest in the principal-

agent relationship is the root cause of corporate scandals. Because of this clash, regulations must be put in place to control corporate management's behaviour and stop the spread of profits management.

Despite the growing significance and interest in managers' efforts to manage their employees' wages, this study was spurred on by recent financial scandals that have further highlighted exploitative managerial practices in Nigeria (Ahmad & Bakare, 2025). In the most recent Oando Oil Plc incident, which saw the company being caught for filing a fraudulent annual report and paying out a dividend from unrealized profit (Guardian, 2017), also highlights the need to investigate the aggressive earnings management on shareholders' interest in profitability of listed oil and gas companies between 2015 - 2024. Such information is especially required in Nigeria's oil and gas sectors, which have experienced significant incidents of revenue loss brought on by managers' dishonest behavior. Since it still generates more than 70% of the nation's revenue, the petroleum marketing industries sector is extremely important (Ishaku *et al.*, 2019).

### Research Questions

- i. What is the influence of discretionary accrual on the profitability of quoted oil and gas companies in Nigeria?
- ii. What is the influence of auditors' independence on the profitability of quoted oil and gas companies in Nigeria?

The importance of this study stems from the dearth of empirical data on the shareholders interest in profitability oil and gas companies and earnings management, particularly in an emerging economy. Therefore, this study will add to the body of knowledge already available on the issue. The study would also be of great eyes opener to management, shareholders, regulators, and legislators among others. By prohibiting managers from engaging in unethical earnings management tactics, this study will specifically aid in safeguarding the investment made by shareholders. The study would also assist auditors in carrying out their obligations as professionals with care and attention. The report would be helpful to regulators and policymakers in developing a strategy to lessen the management of earnings by Nigerian oil and gas companies.

### Hypotheses Testing

- i. Discretionary accrual has no significant effect on the profitability of quoted oil and gas companies in Nigeria.
- ii. There is no significant influence of auditors' independence on the profitability of quoted oil and gas companies in Nigeria.

## LITERATURE REVIEW

### Aggressive Earnings Management

Earnings management is sometimes referred to as income smoothing (Ahmad & Bakare, 2025), the "accounting numbers game" (Galek & Čičak, 2025), and the "big bath" (Bakare, *et al.*, 2022) and "cookie jar" (Balaciu *et al.*, 2009). Different academics define the idea of profits management differently depending on how they see it. According to Abdi & Soroushyar (2025), earnings management is the process of manipulating financial statements by using discretion in financial reporting and transaction structuring in order to either mislead certain stakeholders about the company's true economic performance or affect the outcomes of contracts that rely on the accuracy of reported accounting data.

EM, according to Fields *et al.*, (2001), takes place when managers utilize their discretion in analyzing financial data. It is possible to choose between maximizing firm value (shareholder wealth) and advancing managers' personal interests (opportunistic earnings management).

Davis-Friday and Frecka (2002) describe EM as "the intentional intervention of management to change the reported earnings number (by making operating decisions or by changing accounting procedures) from what it would otherwise have been in the absence of such intervention". Many people believe that EM is immoral, particularly in light of the high-profile accounting scandals of the early 2000s and the enactment of SOX (Grasso

et al., 2009). According to agency theory, accounting has two functions that help managers and shareholders align their interests: stewardship and informativeness (Ronen & Yaari, 2008).

Similar to this, Ahmad and Bakare (2025) assert that EM occurs when managers use their discretion to alter financial reports in order to mislead some stakeholders about the company's true economic performance. They assert that although earnings management may be defined differently, the fundamental idea that it distorts a company's actual performance appears to be the same. EM is the technique of modifying a company's results to make its financial statements appear more favorable than they actually did.

The definition of Aggressive earnings management varies depending on how one views the practice of managing earnings; those who believe it is beneficial to the company define earnings management as the tools managers use to strengthen the firm's financial position (Healy & Wahlen, 1999). According to those who have a negative view of earnings management (Bergstresser & Phillippon, 2003; Ronen & Yaari, 2008), the practice involves management manipulating earnings in order to benefit from it or to demonstrate that the company is performing while it isn't at the expense of the wealth of shareholders and investors.

### **Shareholders Interest**

**Shareholders' interest** can be defined as a conceptual term that refers to the collective economic and governance rights of individuals or entities who own shares (stock) in a corporation (Abdi & Soroushyar, 2025). This interest is primarily rooted in their status as part-owners of the company. Shareholders interest centers on maximizing the financial return and value for the owners of the business (shareholders) through profits, dividends, and increases stock price, protected by rights like voting on the board, and returns on liquidation proceeds.

### **Auditor Independence**

The most challenging and contentious feature of the auditing profession is independence since it strengthens the industry's commitment to objectivity. The numerous rules and regulations that have been developed over time by various professional and regulatory organizations are the cause of its complexity and contentiousness (Bakare, 2022). In light of the benefits of maintaining auditor independence, the European Commission has established rules that must be adhered to throughout the entire European Union. The US passed the Sarbanes Oxley (SOX) Act, which establishes requirements for US auditors' independence (Bowman & Navissi, 2003).

The auditor is tasked with conducting a personal assessment to determine whether or not independence risk may be acceptable. The auditor must first identify, assess, and evaluate any potential threats to independence before accepting audit assignment. They must then put the necessary safeguards in place to lessen such concerns to a tolerable level.

The assurance engagement must be terminated if this assignment is not carried out since failing to do so puts independence and objectivity at risk. The auditor's ability to provide auditing services is often seriously hampered by the serious risks to independence. When the auditor "over-stays" with a client, it becomes even more difficult because these dangers may appear gradually over time, which might compromise independence (Cheng & Warfield, 2010).

The independence of the auditor is regarded as the foundation of the auditing profession. It is a crucial step in the statutory financial reporting procedure and a prerequisite for giving all audited financial reports value. According to Izedonmi (2000), independence is a mental state that is demonstrated by the auditor's neutrality and integrity.

### **Agency Theory**

In the early 1970s, Barry Mitnick (institutional perspective) and Stephen Ross (economic perspective) independently created agency theory, which focused on disputes between principals (owners) and agents

(managers). Although Mitnick emphasized institutional solutions and Ross concentrated on incentive difficulties, Michael C. Jensen and William H. Meckling's (1976) work, which formalized the "agency cost" idea in corporate contexts, is the most frequently cited work applying it to finance (Ahmad & Bakare, 2025). The principal-agent problem, which corporate governance attempts to address, arises when one party (the principal, such as shareholders) hires another (the agent, such as managers) to act on their behalf. This theory highlights the potential conflict of interest because each party aims to maximise their own benefits.

The fundamental assumption of agency theory is that people (principals and agents) are rational, self-interested actors who frequently have different objectives (Abdi & Soroushyar, 2025). This can result in conflicts, particularly when agents possess more information than principals (information asymmetry). In order to align interests and reduce "agency costs" (monitoring, bonding, residual losses), it is assumed that managers (agents) may put their own interests ahead of the wealth of the owner (principal).

Following the proposal of the theory of the business, Jensen & Meckling (1976) produced the logical framework for earnings management studies. An agency relationship is created when owners and managers are kept apart. When one or more individuals referred to as principals employ one or more individuals referred to as agents or agents as decision-making specialists to carry out a service, an agency relationship is created (Ireland, Hoskisson & Hitt, 2011). According to Berle and Means (1932), top managers have employed employees who are probably more concerned with their own well-being than the shareholders'.

The principal gives the agent some decision-making power in order to accomplish the company's main goal, which is to maximise shareholder profit, because ownership and control of the business are separated (Jensen & Meckling, 1976). However, the company's goal of maximising wealth clashes with the managers' desire to maximise profits, which motivates the management of earnings. When management prioritises policies that expand the company's size or diversify it into unrelated industries at the expense of shareholders, which lowers dividends and the stock price, an agency problem occurs.

## Empirical Review

The effect of leverage on earning management in Pakistan's manufacturing industry is examined by Asim and Ismail (2019). The study chooses 159 non-financial companies that have been listed on the Pakistan Stock Exchange for seven years. The results showed a strong positive link between earning management actions and leverage. But there is no discernible connection between growth and earning management actions.

In their investigation of the actual impact of earnings management on the cross-sectional stock return of the weekly and monthly data of companies listed on the Bombay Stock Exchange, Bansal et al. (2021) came to the conclusion that investors discounted the stock price when they believed that real earnings management was of poor quality. In their study, "Revisiting Real Earnings Management and Financial Performance of the Sampled Industries," Utor, Yua, and Epur (2023) came to the conclusion that these companies' real earnings management is not a long-term predictor of their financial performance.

In an emerging market (Egypt), Mostafa and Ibrahim (2019) investigate whether firms with poor performance engage in more EM practices than firms with strong performance. The findings indicated that low-performing enterprises have a reduced earnings-to-cash-flows. According to the study, low-performing companies boost their profits management methods more than high-performing companies.

Davis and Garcia-Cestona (2023) examine institutional ownership, EM, and earnings surprises. Using a sample of 59,503 listed U.S. firm-year observations from 1981 to 2019. The study uses accrual-based and real activity measurements, as well as earnings surprises, as a proxy for EM. Overall, the results suggest a positive IO-EM relationship, but they also demonstrate that this relationship is dynamic, highly context-dependent, and nonlinear. Additionally, the study finds evidence that IO has a negative impact on real activities EM and a good impact on accrual-based EM.

Durowoju et al. (2024) look into the connection between shareholders' interest in profitable publicly traded companies and aggressive EM. Ten industries from 2011 to 2020 were chosen using the purposive sampling techniques. The results showed that aggressive profit management had a noticeable impact on creditors' protection but not on business protection.

Ashibogwu et al. (2025) looked at how earning management (EAM) affected shareholders' wealth in Nigeria between 2015 and 2022. Earnings per share, dividend per share, and ROA were used as stand-ins for shareholders' value in the study, which uses discretionary accrual as EAM. The study used the panel regression technique to examine the link, and the results showed that DPS had a negligible impact on ROA while EAM had negative impact on EPS.

Kujore and Adegbe (2023) findings revealed that earnings yield and earnings per share had a significant effect on aggressive EM while dividend yield and dividend per share had positive and insignificant effect on aggressive EM.

Without prejudice the studies being conducted by various scholars in this area of study, it has been identified that this study stands out by application of GMM in which studies conducted here in Nigeria failed to use despite the usefulness of Generalized Moment Method that its unique features make it stand out among the techniques of data analysis, none of the study make use of GMM. This is thereby focused on oil and gas companies listed on Nigerian Exchange Group with the application of GMM techniques of data analysis.

## METHODOLOGY

This study used the *ex - post facto* research design to collect data from the Nigerian Exchange Group for the period between 2015 – 2024). The study's population comprises of 14 oil and gas companies that are listed on the Nigeria Exchange Group (NGX), from which a sample of 8 companies for the years 2015 to 2024 was chosen using purposeful sampling technique.

### Techniques of Data Analysis

Traditional econometric techniques, such as pooled ordinary least square regression, and two-stage least square estimation, as well as Vector Auto Regression models, were frequently used in earlier research on the relationship between aggressive earnings management and shareholders' interest in firm's profitability (See Fan et al., 2011; Wintoki et al., 2012; Zeitun and Saleh, 2015). This study, however, employed a GMM dynamic panel, a more advanced estimating strategy. Techniques like OLS do not provide unbiased estimates because the lagged explained variable is one of the explanatory variables, which has led to a rise in the use of this approach (See Alvarez & Arellano, 2003).

Endogeneity, which skews the projected coefficient of the lagged dependent variable when employing OLS estimation, is also evident in the relationship between the lagged dependent variable and the error term. Given that the panel data consists of time series and cross sections, the Generalised Moment Method estimator system is suitable to use in this situation and may offer a solution (Bakare, 2022). The study chose the lags that best address the endogeneity out of the several lags that GMM gives. Version 14.5 of STATA software was utilized for the analysis in the study.

$$ROA_{it} = \alpha + \beta_1 AUDIN_{it} + \beta_2 DESAC_{it} + \mu_i$$

Where ROA is return on assets, AUDIN is for auditors' independent, DESAC is for discretionary accrual,  $\alpha$  captures intercept,  $\beta_1 - \beta_2$  is the parameters of estimate  $\mu_{it}$  is  $\varepsilon_{it} + \lambda_i$ , while  $\varepsilon_{it}$  is stochastic error term, and  $\lambda_i$  is cross-sectionals individual difference (Composite Error). The residuals of the regression represent managed accruals (discretionary accruals) (Xiong, 2006). Jones model is expressed as follows:

$$\frac{TA_t}{A_{t-1}} = \alpha_0 + \alpha_1 \left( \frac{1}{A_{t-1}} \right) + \alpha_2 \left( \frac{\Delta S_t}{A_{t-1}} \right) + \alpha_3 \left( \frac{PPE_t}{A_{t-1}} \right) + \alpha_1 (ROA_t) + \varepsilon$$

where  $TA_t$  is total accruals in year  $t$ ,  $A_{t-1}$  is total assets in year  $t-1$ ,  $\Delta S_t$  is change in sales from year  $t-1$  to year  $t$ ,  $PPE_t$  is net property, plant and equipment in year  $t$ , and  $ROA_t$  is total income divided by total assets in year  $t$ . As with prior studies, when calculating discretionary accruals.

## Data Analysis and Interpretation

This section's main goal is to convey the findings from the inferential analysis of the various variables. Regression analysis is the primary inferential analysis technique used in this study to investigate the effect of aggressive earnings management on shareholders' interest in profit of oil and gas listed companies in Nigeria. The outcomes are displayed in accordance with the system's generalized method of moment (GMM) estimator. Unit root testing was done before the estimation to determine whether each variable was stationary.

**Unit Root Test:** Here are the findings of the unit root test. The test was run to confirm the characteristics of the panel data used in this study's time series, particularly the nature of stationarity. In order to avoid producing erroneous regression findings in the work, the test is important to make sure that variables are stationary or otherwise integrated.

Table 1: Results of Fisher-type Augmented Dickey-Fuller Unit Root Test

| Variable | P-statistic | p-value | Z-statistic | p-value | L*-statistic | p-value | Pm-statistic | p-value | Remark     |
|----------|-------------|---------|-------------|---------|--------------|---------|--------------|---------|------------|
| ROA      | 102.6       | 0.000   | -2.752      | 0.000   | -6.339       | 0.000   | 11.35        | 0.000   | Stationary |
| DESAC    | 74.32       | 0.000   | -3.145      | 0.000   | -4.765       | 0.000   | 7.264        | 0.000   | Stationary |
| AUDIN    | 109.3       | 0.000   | -3.389      | 0.000   | -7.063       | 0.000   | 12.32        | 0.000   | Stationary |

Source: Author's Computations, 2025

**Note:** P-statistic is Inverse chi-squared statistic; Z-statistic is Inverse normal statistic; L\*-statistic is Inverse logit t statistic; Pm-statistic is Modified inverse chi-squared statistic. ROA is return on assets; DESAC is discretionary accrual; and AUDIN is audit independence.

The unit root test results shown in Table 1 were obtained using the Fisher-type augmented Dickey-Fuller method. The test reveals four test statistics: inverse chi-squared statistic (P), inverse normal statistic (Z), inverse logit t statistic (L\*), and modified inverse chi-squared statistic (Pm). The results of the test demonstrated that each of the four test statistics—ROA, DESAC, and AUDIN—is stationary. It is evident from the data that all test statistics have low p-values and high statistic values, which are adequate to rule out unit roots, or non-stationarity, as the test's null hypothesis. It can be concluded that the variable is stationary as these statistics support stationarity. Both stationary and non-stationary series can be incorporated in a model without running the danger of producing inaccurate results because the system GMM estimate approach was employed in this investigation.

Table 2: Result of Variance Inflation Factor (VIF) for Return on Assets Model

| Variable | VIF   | 1/VIF    |
|----------|-------|----------|
| AUDIN    | 3.31  | 0.301964 |
| DESAC    | 3.28  | 0.304575 |
| Mean VIF | 11.56 |          |

**Source: Author's Computations, (2025).**

The VIF result presented in Table 2 is for the return on assets model. With each of the VIF values being lower than 10, the model of this study is free from multi-collinearity problem. The tolerance (1/VIF) values also suggest similar conclusion, as each of the values are well above zero. As a result, the variance inflation factor results showed that none of the model's independent variables exhibited extremely high correlation, which could cause a multi-collinearity issue. The outcome supports the pairwise correlation analysis's conclusion even more.

### Hypotheses Testing

Table 3: Result of System GMM for Return on Assets

| Variable    | Coefficient | Standard Error | Z     | p-value |
|-------------|-------------|----------------|-------|---------|
| ROA (lag)   | -0.15055    | 0.073722       | -2.04 | 0.041   |
| DESAC       | 0.182404    | 0.070211       | 2.6   | 0.009   |
| AUDIN       | -0.92862    | 1.056989       | -0.88 | 0.380   |
| Constant    | 12.67747    | 19.69436       | 0.64  | 0.520   |
| Sargan test | 8.891       |                |       | 0.438   |
| AR test (1) | -1.019      |                |       | 0.308   |
| AR test (2) | -1.008      |                |       | 0.313   |

**Source: Author's Computations, (2025).**

**Note:** ROA is return on assets; DESAC is discretionary accrual; and AUDIN is audit independence. AR is autocorrelation test.

### Research Model and *Apriori* Expectation

$$ROA_{it} = \alpha + \beta_1 AUDIN_{it} + \beta_2 DESAC_{it} + \mu_i$$

$$ROA = 0.150 + 0.182AUD - 0.929DESAC$$

As a result of assessing the model of this study in terms of autocorrelation (or serial correlation), the Arellano-Bond test of autocorrelation (AR), which has the null hypothesis of no autocorrelation, is presented. The main assumption of the test suggests that first-order autocorrelation in the GMM result may be acceptable, but second-order autocorrelation raises serious concerns about the result's validity. The outcome reveals a very high first-order autocorrelation statistic value (i.e., -1.872), and the p-value is significantly higher than 0.005.

This supports the null hypothesis that there is no first-order autocorrelation in the model and passes the test's criteria. The result also shows that the second-order autocorrelation statistic value (i.e., -0.652) is quite high and the p-value is much greater than 0.05. This demonstrates that the null hypothesis cannot be rejected by the second-order test, which meets the test condition. As a result, there are no autocorrelation problems and the model passes both first order and second order tests.

The Sargan test of over-identifying restriction was used to evaluate the validity of the instruments used for this model. This was done to confirm the validity of the limitations imposed on the instruments used to prevent over-identification. The validity of over-identifying limitations is the test's null hypothesis. The test's null hypothesis

could not be rejected for the model, according to the results, which had a statistic value of 45.55 and a p-value greater than 0.01. This suggests that the model is valid for over-identifying restriction.

Examining the importance of each explanatory variables of the model, the results show auditors' independence have negative coefficient (-0.2531) not significant with p-value (0.380) at 5% level of significant while discretionary accrual have coefficients 0.1824 with p-value of 0.0090. However, one-period lag of return on assets has statistically significant, judging from their p-values being less than 0.5 (5% significant level). Specifically, the significant positive coefficient of lag of return on assets indicates that a percent point increase in first year period lag of return on assets will lead to increase in current return on assets by 0.041 percent points. Also, a percentage change in discretionary accrual will to increase in return on asset by 0.009 percent. Also, a percentage change in auditors' independent will lead the insignificant negative coefficient of auditors' independence implies that a percent point increase in auditors' independence will lead to decrease in 0.009 by 0.380 percent points.

## DISCUSSION OF FINDINGS

The major findings of this study revealed positive and significant effect of earnings management on shareholders' interest in profit of listed oil and gas companies in Nigeria which is in line with the study by (Ahmad & Bakare., 2025; Abdi & Soroushyar, 2025; and Habib *et al.*, 2022) but contradict the findings of the study by Al-Sartawi (2013). Specifically, each of the hypothesis was discussed with to reference research variables. GMM regression analysis in Table 3 indicated that discretionary accrual has significant effect on shareholders' interest in profit of quoted oil and gas companies in Nigeria and this is measured using return on assets.

This implies that aggressive accrual accounting may indicate a higher risk profile, potentially leading to financial instability. Discretionary accruals can make it harder for analysts and investors to make wise decisions by hiding the company's actual financial situation and performance. The findings support agency theory by demonstrating that adherence to the legal framework on ethical standards reduces aggressive earnings management. In other words, companies that engage in window dressing find it more difficult to manage their earnings. A financial covenant that is frequently used to close the gap between the buyer's and seller's assessments of the company being purchased is the earnings covenant in the acquisition agreement.

## CONCLUSION AND RECOMMENDATIONS

It has been discovered that earnings management play a significant role in diminishing the shareholders' interest in profit of oil and gas companies. It has presented the company's image in an immoral way even though there is no legal violation. Therefore, this study particularly indicates that shareholders' interest in the profit of Nigerian oil and gas businesses is not statistically significantly impacted by the independence of auditors.

Contrarily, discretionary accrual plays significant effect on the sampled companies. In this, company with high discretionary accruals may attract regulatory attention, potentially leading to increased oversight and enforcement actions. More also, earnings management of financial performance may lead to higher credit ratings, potentially reducing borrowing costs but also increasing the risk of credit rating downgrades if accruals are later reversed.

Auditor concern over earnings management may be greater when decisions are made that lead to inflated rather than underestimated results. It is possible that auditors are aware of earnings management. In terms of the possibility of receiving a qualified audit report, discretionary accrual might not be important. Organizations with extreme earnings performance, whether positive or bad, are more likely to receive a qualified audit report, as would be predicted. In line with the concluded statement above, the following recommendations become pertinent:

- i. The Financial Reporting Council of Nigeria should have the authority to examine the financial accounts of Nigerian oil and gas businesses that are listed and to provide a well-organized framework of accounting laws.

Strict adherence to IFRS, GAAP, CAMA, and other financial reporting laws is ensured by doing this. Furthermore, if not required, regulatory bodies ought to promote ethical standards.

- ii. The independence of the auditor is essential for keeping an eye on management and making sure that their goals are in line with those of the shareholders. The decrease in earnings management of publicly traded oil and gas firms is significantly impacted by the independence of auditors. While maintaining openness in the financial reporting of mentioned oil and gas companies, management should make sure that the interests of shareholders are protected.

### **Policy Implications of the Study**

The study will improve the understanding of EM concept in practice at all levels of organization especially in the oil and gas companies' environment where auditors and regulators when assessing the appropriateness of accounting policy choices by oil and gas companies, mitigation of EM is highly granted. Auditors should be more concerned with accruals that increase income than those that decrease it. The relationship between EM and the financial performance of Nigeria's listed oil and gas businesses may suffer if this issue is not taken into consideration. The financial statements of oil and gas organizations may be deceptive if the asymmetric impacts of accruals that increase as income rises and decrease as it falls are not addressed.

### **Contribution to knowledge**

The unique feature of this study is the application of Generalised Moment Method (GMM) which is very rare in the contemporary studies conducted by various scholars with particular reference to Nigeria. Also, the combination of audit independence and discretionary accrual with particular focus on oil and gas companies in Nigeria. This is very rare in the contemporary studies on the effects of aggressive earnings management on shareholders' interest in profit of listed oil and gas companies in Nigeria and has provided insights that have added to the body of knowledge in the field of study.

### **REFERENCE**

1. Ahmad, M. B. & Bakare, T. O. (2025). Moderating effect of external monitoring mechanism on the relationship between earnings management and profitability of listed petroleum marketing companies in Nigeria. *Journal of Entrepreneurship and Business*, 13(1), 1-17.
2. Akuchi, B.N. & Egbunike, P.A. (2023). Environmental responsibility disclosure and performance of oil and gas firms listed in Nigeria: Moderating role of earnings management, *Journal of Global Accounting*, 9(3), 214 -230.
3. Alvarez, J., & Arellano, M. (2003). The time series and cross-section asymptotic of dynamic panel data estimators. *Econometrica*. 71(4), 1121-1159.
4. Ashibogwu, N. K., Isoso, M. C., Osita, M., Atokpe, M. R. & Onyeme, M. J. (2025). Earnings management practices and shareholder value in Nigeria. *International Journal of Advances in Engineering and Management*, 7(3), 773-780.
5. Ater, B. & Hansen, T. B. (2020), "Earnings management prior to private debt issuance", *Accounting Research Journal*, 33(2), 269-285.
6. Bakare, T. O. (2022). Effect of the interaction between audit firm size and audit quality on the financial performance of listed consumer goods companies in Nigeria. *JAROE Vol. 5 No. 3*, 225-233. <http://jurnal.usk.ac.id/JAROE>.
7. Bansal, M., Ali, A., & Choudhary, B. (2021). Real earnings management and stock returns: Moderating role of cross-sectional effects. *Asian Journal of Accounting Research*, <https://www.doi.org/10.1108/AJAR.11.2020.0107>.
8. Biddle, G. C., Hilary, G. & Verdi, R. S. (2009). How does financial reporting quality relate to investment efficiency?, *Journal of Accounting and Economics*, 48(2-3), 112-131.
9. Davis, J. G. & Garcia-Cestona, M. (2023), Financial reporting quality and the effects of CFO gender and board gender diversity. *Journal of Financial Reporting and Accounting*, 21(2), 384-400.

10. Davis-Friday, P. Y. & Frecka, T. J. (2002). What managers should know about earnings management-its prevalence, legality, ethicality, and does it work?. *Review of Accounting and Finance*, 1(1), 57-71.
11. Durowoju, A. O., Olalere, M. D., Ijaduola, A. Dare, O. O., Adesina, B. H., Ahannaya C. G. & Adegbe, F. F. (2024). Aggressive earnings management and Stakeholders Protection in Profit Listed Organizations. *IOSR Journal of Economics and Finance*, 15(5), 41-50.
12. Emefiele, (2021). Why CBN sacked first bank board. <https://www.premiumtimesng.com/news/headlines/458476-why-cbn-sacked-first-bank-board-emefiele-full-text.html>.
13. Evbuomwan, I., (2021). Corporate governance and earnings management in listed Nigerian manufacturing companies. Being an M.Sc Thesis submitted to the national college of Ireland.
14. Gajdosikova, D., Valaskova, K., & Durana, P. (2022). Earnings management and corporate performance in the scope of firm-specific features. *Journal of Risk and Financial Management*, 15,426.<https://doi.org/10.3390/jrfm15100426>.
15. Grasso, L. P., Tilley, P. A. & White, R. A. (2009). The ethics of earnings management: perceptions after Sarbanes-Oxley. *Management Accounting Quarterly*, 11(1), 45-69.
16. Hassan, P. M. (2013). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*, 13(4), 365-384.
17. Inaam, Z., Khmoussi, H. & Fatima, Z. (2012). Audit quality and earnings management in the Tunisian context. *International Journal of Accounting and Financial Reporting*, 2(2), 17-27.
18. Justin, G. D. & Miguel, G. C. (2023). Institutional ownership, earnings management and earnings surprises: evidence from 39 years of U.S. data. *Journal of Economics, Finance and Administrative Science*, 28(56), 218-236. Emerald Publishing Limited 2077-1886. DOI 10.1108/JEFAS-01-2023-0021
19. Kaldo\_nski, M., Jewartowski, T. & Mizerka, J. (2020). Capital market pressure, real earnings management, and institutional ownership stability - evidence from Poland. *International Review of Financial Analysis*, 71, 101315.
20. Kujore, O. A. & Adegbe, F. F. (2023). Shareholders interest and aggressive earnings management among listed foods and beverages manufacturing firms in Nigeria. *International Journal of Research and Innovation in Social Science*, VII(II), 1-13.
21. Lemma, T. T., Negash, M., Mlilo, M. & Lulseged, A. (2018). Institutional ownership, product market competition, and earnings management: some evidence from international data. *Journal of Business Research*, 90(2), 151-163.
22. Mopho, J. P., & Okolie, A. O. (2023). Earnings management and dividend policy of listed commercial banks in Nigeria. *Finance and Accounting Research Journal*, 5(8), 186-202. DOI:10.51594/farj.v5i8.527.
23. Mutia-Zahra, W. S. (2018). The influence of managerial ownership, earnings management, intellectual capital, and tax aggressiveness to firm value. *JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi)*, 4(1), 19-28.
24. Ndulue, G. C., Okoye, P. V. C., & Amahalu, N. N. (2021). Earnings management and shareholders wealth creation of quoted conglomerates in Nigeria. *International Journal of Research in Education and Sustainable Development*, 1(9), 47-63.
25. Ronen, J. & Yaari, V. (2008). *Earnings Management: Emerging Insights in Theory, Practice, and Research*, Springer, New York.
26. San Martin Reyna, J. M. (2018). The effect of ownership composition on earnings management: evidence for the Mexican stock exchange. *Journal of Economics, Finance and Administrative Science*, 23(46), 289-305.
27. Utor, V., Yua, H. & Epur, S.O. (2023). Revisiting the real earnings management and financial performance nexus in Nigeria: A Panel ARDL modeling of listed Oil and Gas companies, *UBS Journal of Business and Economic Policy*, 1(4), 250 - 264.
28. Waheed, A., Hussain, S., Malik, Q. A., & Khan, S. (2022). Ownership structure and earnings management in view of effective monitoring and myopic institutions hypothesis: A dynamic panel estimation. *Global Business Review*, <https://doi.org/10.1177/09721509221121186>.
29. Waqas, H. (2020). Factors affecting earning management: evidence from banking sector of Pakistan. *International Journal of Scientific & Engineering Research*, 11(1), 440-449.

30. Wintoki, M. B., Linck, J. S. & Netter, J. M. (2012). Endogeneity and the Dynamics of Corporate Governance”. *Journal of Finance Economics*, 105(3), 581–606.
31. Zayol, P. I., Agaregh, T., & Eneji, B. E. (2017). Effect of financial information on investment decision making by shareholders of Banks in Nigeria. *Journal of Economics and Finance*, 8(3),20-31.
32. Zeitun, R., & Saleh, A. S. (2015). Dynamic performance, financial leverage and financial crisis: evidence from GCC Countries. *EuroMed Journal of Business*, 10(2), 147-162.