MODERATING EFFECT OF AUDIT QUALITY ON MONITORING MECHANISMS AND QUALITY OF REPORTED EARNINGS OF LISTED OIL AND GAS FIRMS IN NIGERIA

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https://doi.org/10.57233/ijamer.v1i4.06

Abstract
The study examined the moderating effect of audit quality on the association between monitoring mechanisms and quality reported earnings of listed oil and gas firms in Nigeria. The study adopts expost factor as study design and extracted data from seven oil and gas firms as representatives of the population for periods from 2015-2024. Multiple regression was employed using ordinary least square regression. The study reported that audit committee independence, institutional ownership and audit quality relates positively and significantly with quality of reported earnings. Furthermore, the interactive relationship evidenced that, audit quality moderates significantly the effects of audit committee independence, and institutional ownership have on quality of reported earnings. It is in this vein that the study concludes that audit quality exerts significant moderating role on monitoring mechanisms and quality of reported earnings of listed oil and gas firms in Nigeria. Base on that conclusion the study recommends that regulators should encourage management of listed oil and gas firms to hire auditors among the big 4 firms who are seen to have more experience and more proficient in audit services as this has been found to significantly moderate the relationship between audit committee independence, institutional ownership and quality of reported earnings.

Key Words: Audit committee independence, audit quality, board independence, institutional ownership,

1.0 Introduction

Financial reports are indicators of firms' financial position which is a translation of the investments of the firms' owners and lending from creditors. The financial statement shows how resources are sourced, when and how they are utilized, and how effective the resource utilization is. Firms must make available such reports to varying users to indicate their viability and investment potential (Erawati & Tunnajiha, 2023). It is expected that the information made available will be useful and meaningful to firm lenders, investors, and other users of accounting information in making various informed decisions (Freihat et al., 2024). The reported information by all ramifications is required to be of relevance, reliable, comparable, understandable, complete, and faithfully represent the activities of the firm in that reporting period (Saleh et al., 2020; International Financial Reporting Standards, 2018). This is to ensure that the information contained in the statement or report does not lose its value or the purpose it is purported to serve.

Financial statements being the primary medium through which firms communicate their financial state to the public have drawn the attention of researchers, regulators, investors, and professionals in accounting because of the importance and the impact the information derivable from them has on the decision of users (Pierbaumer, 2021). The expression "quality of reported earnings" entails the accurate preparation and presentation of a company's reports to ensure they portray a true situation of a firm's performance and its usefulness in forecasting future earnings (Freihat et al., 2024; Pierbaumer, 2021).

The incessant corporate failures both within and outside Nigeria over the years resulting mostly from earnings manipulations, inadequate disclosure, and funds mismanagement created significant doubt in the minds of investors and creditors about the reliability and the quality of earnings (Akindele, 2018). Doubts as to whether the reported earnings represent truly the firms' capability to stand the test of time (Akindele, 2018). These therefore have resulted in a serious threat to the credibility and quality of reports necessitating a review and globalization of accounting standards which brought about the adoption of IFRS, and a series of reviews of Corporate Governance Codes to ensure efficient accounting practice (Akindele, 2018). Therefore, reporting the true nature of a firm performance through qualitative and un-manipulated financial reports is non-negotiable because it promotes and indicates transparency and delivery of high-quality annual reports through comprehensive disclosure (Wulandari et al., 2025).

Nigeria was also faced with a couple of these corporate failures, with the most popular being the scandals that infested the financial institutions and other firms like Multitrex Integrated Foods which was faced with financial distress since 2008 when the company's management decided to expand operating facility in order to gain economies of scale which it financed with the sum of 6.2 Billion Naira with a loan from the then Skye Bank Plc which is to be paid through proceeds from private placement order (Momoh, 2023). But due to the global financial crisis at that time, investors failed to subscribe cause the loan to go bad and in 2011 it amounted to 8.52 Billion Naira (Momoh, 2023). That wrong managerial decision had cost the company fortune; suspension from Nigerian Exchange Group, suspension by Nigerian Customs Services, layoff of staff and an unutilized production capacity of 65000 tons due to suspension of operation. That devastating situation still haunted the company and till date it is not back on its feet (Momoh, 2023).

Another case is the case of Oando Nigeria Plc in 2017 where some the firm's major shareholders accused the management of finance mismanagement, non-payment of dividend, insider trading, inability to service debt and accumulation of losses of about 160 Billion Naira (Udo, 2017). This fear was later confirmed by the company's auditor stating the uncertainty of the firm continues to be a going concern (Udo, 2017). Skye Bank Plc in 2018 also had it crisis arising from unacceptable corporate governance lapses, and liquidity issues that led to the intervention of the CBN and the establishment of Polaris Bank (Board, 2018). These failures have caused stakeholders to lose trust and credence on firms financials (Ali et al., 2024).

Summarizing the above failures, it can simply be concluded that the failure of firms is attributable to non-compliance with the codes of corporate governance, weak board of directors, connivance between managers and firm auditors to portray a false image of the company, and the absence of strong monitoring tools that guides and ensure compliance to rules and guidelines (Alsmady, 2023). In an attempt to regain public confidence and to curtail the possible future corporate failures in Nigeria, the Federal Government through some of its agencies like Central Bank of Nigeria, Securities and Exchange Commission and others came up with structures that will protect investors' investment and curtail possible opportunistic behavior by managers thereby ensuring reliability and quality of reported earnings (Saleh et

al., 2023). Among the structures in place is the code of corporate governance which was first issued in 2003 and has undergone a series of updates and reviews to the last issue in 2018 to cater to the peculiarity and present state of the Nigerian business environment. Asset Management Act of 2010 and Financial Reporting Council of Nigeria Act of 2011, Finance Act of 2022 are among the recent enactments. However, despite the above reforms and changes, the quality of reported earnings still stands to be queried.

A significant number of studies were conducted examining the influence of monitoring mechanisms on the quality of reported earnings in different countries taking into cognizance the uniqueness and peculiarities of each country. Some of these studies include; (Amah & Ekwe, 2021), (Erawati & Tunnajiha, 2023), (Hewage & Amarasekara, 2022), (Mbatuegwu et al., 2022), (Akanbi et al., 2022), (Ajiboye & Ibrahim, 2022), (Farouk et al., 2019), (Baba, 2022), (Ali et al., 2024), (Alsmady, 2023), (Wulandari et al., 2025), (Freihat et al., 2024), (L. Q. Le, 2025),(Ademu et al., 2025). However, there is no common ground to conclude on the influence of monitoring tools of governance, and audit quality on the quality of reported earnings. Hence, the need for further studies to be conducted to determine whether a common stand can be established on the relationship between monitoring attributes and quality of reported earnings.

Also, a lot of the studies that were conducted in this field were geared towards investigating the direct linkage between, corporate governance, or audit committee on quality of reported earnings ((Enoidem et al., 2023)(Obeitoh et al., 2024)(Freihat et al., 2024)(Magaji et al., 2020), (Saleh et al., 2020)(Amah & Ekwe, 2021)(Daddau et al., 2023)). Therefore, the current research intends to succor these gaps by using data from 2015-2024 and introducing a third variable known as the moderating variable to study the indirect association between monitoring mechanisms and the quality of reported earnings.

The objective of the study is to examine the moderating effect of audit quality on the relationship between monitoring mechanisms and quality of reported earnings of listed oil and gas firms in Nigeria. In view of the foregoing, the following null hypotheses are formulated:

H_{01} Board independence does not significantly influence the quality of reported earnings of listed oil and gas firms in Nigeria
H_{02} Audit committee independence has no significant influence on quality of reported earnings of listed oil and gas firms in Nigeria
H_{03} Institutional ownership has no significant impact on quality of reported earnings of listed oil and gas firms in Nigeria
H_{04} Audit quality does not significantly impact quality of reported earnings of listed oil and gas firms in Nigeria
H_{05} There is no significant moderating effect of audit quality on the association between board independence and quality of reported earnings of listed oil and gas firms in Nigeria
H_{06} Audit quality has no significant moderating effect on the association between audit committee independence and quality of reported earnings of listed oil and gas firms in Nigeria
H_{07} There is no significant moderating effect of audit quality on the association between institutional ownership and quality of reported earnings of listed oil and gas firms in Nigeria

2.0 Literature Review

Visedsun et al.(2025) in their study "Does Audit Quality Enhance the Value Relevance of Earnings and Book Value on the Market Price of Common Shares? Evidence from Thailand" employed a multiple regression analysis on a large sample of 1203 firm-year observations from 401 Thai non-financial firms between 2021 and 2023. Their key finding is that audit quality (AQ), especially hiring a Big 4 auditor or paying higher audit fees, strengthens the connection

between a company's financial metrics (earnings per share and book value) and its market share price, confirming that high-quality audits boost investor confidence and information value in an emerging market. However, a critique is that while AQ enhances the overall relevance, the statistical evidence suggests that AQ does not significantly increase the unique relevance of these accounting numbers on their own, meaning its impact is more about sustaining credibility than acting as a major standalone driver of price.

Wulandari et al.(2025)examines how governance practices and ownership patterns shape earnings management in Indonesian banking firms, and whether strong audit quality reinforces these effects. Using a quantitative approach with regression and moderation analysis on144 firm-year observations (2019–2023), the authors find that good corporate governance helps curb earnings management, while ownership structure alone does not have a meaningful impact. They further show that high audit quality strengthens the influence of both governance and ownership factors, suggesting that effective external monitoring enhances transparency in financial reporting. Future research would benefit from employing more comprehensive indicators of governance and audit quality, and from extending the analysis across industries like the oil and gas industry and countries like Nigeria to better understand how institutional differences shape the transparency and credibility of financial reporting.

The study by Freihat et al., (2024) focused on 94 non-financial companies in Jordan, using historical financial data from 2015 to 2021, to understand what stops managers from manipulating their profits. The main finding was positive: two kinds of internal oversight an active audit committee (one that meets often) and a committee filled with financial experts both significantly cut down on earnings management practices. Crucially, hiring a high-quality external auditor (like a Big4 firm) didn't just help on its own, it also made the impact of both the active and expert committees stronger in keeping the financial reports honest. However, the study hit a major roadblock with independence: having an independent audit committee to be surprisingly linked to more earnings manipulation, which is the opposite of the intended goal. This counter-intuitive outcome, which the authors suggest might be due to the generally low level of actual independence among the sampled Jordanian firms, highlights a critical area for future research to investigate how ownership and other board structures could provide better financial checks and balances in similar developing markets like Nigeria.

The study by Ali et al., (2024) looks at whether corporate governance practices like having independent or knowledgeable board members, active audit committees, or family ownership actually help improve audit and earnings quality in Jordanian non-financial firms. Using data from 94 companies between 2015 and 2021**,** the authors measure audit quality through audit fees and earnings quality through discretionary accruals. Their main finding is that these governance mechanisms do not significantly improve audit quality, although stronger audit quality does help improve earnings quality and partially strengthens the impact of some governance factors, especially audit committee activity. The study does have limitations, particularly because it relies only on audit fees to represent audit quality and is restricted to the Jordanian context. This study fills that gap by carrying out study on Nigerian oil and gas firms and uses the size of the audit firm (big 4 or non big 4) to measure audit quality.

The empirical study, "The moderating role of audit quality between earning management and sustainable investment opportunities: Evidences from gulf cooperation council countries" by Alsmady(2023), employed panel data OLS and moderated multiple regression on 1337 company-year observations across the gulf cooperation council countries from 2011 to 2017. The key finding is that a company's manipulation of earnings has a direct negative effect on its sustainable investment opportunities, but audit quality proxied by using a big 4 auditor acts as

a crucial moderator, effectively reducing the damaging impact of earnings management on sustainable investment opportunities by enhancing informational credibility and reducing agency issues. Academically, while the study effectively highlights the gatekeeping function of high-quality auditors in safeguarding long-term investments in an emerging market, a minor critique is the reliance on a simplistic dummy variable (Big 4 vs. Non-Big 4) for audit quality. Consequently, areas for further research should rigorously employ more granular and continuous proxies for audit quality, such as specialized auditor tenure, specific audit fees, or a composite measure of audit committee effectiveness, to provide a more nuanced and robust assessment of AQ's influence in the distinct economic environment of the GCC.

A similar study by Ajiboye and Ibrahim(2022) investigated how firm monitoring instruments affected earnings quality of companies in Nigeria which were represented by 72 firms for a nine (9) nine-year period. Dechow and Dichev (2002) model was used to proxy financial reporting quality, meanwhile board composition, institutional shareholding, and board diversity proxied firm monitoring tools. They analyzed data using generalized least square regression and the result revealed board composition was found not to be instrumental in improving the quality of reported earnings while gender diversity improves earnings quality. Institutional ownership was found not to influence financial reporting quality positively. This study used only three firm monitoring tools, the new study uses more tools like independent directors, audit committee independence, meetings. to expand the frontier of findings in this area. Also, there are now more recent evaluation criteria for financial reporting like, Francis et al., (2005), Francis et al., (2008), Yoon et al., (2012) which are modified and more recent.

Akanbi et al., (2022) investigated how attributes of audit committee affect the quality of financial reporting for Nigerian-listed consumer goods companies. 15 publicly listed consumer goods companies were included in the 12-year study sample. Correlation and expo facto were the two study designs used. A committee's independence, financial expertise, size, meetings, and audit fees were used as stand-ins for audit committee characteristics. Their research showed that the independence of the audit committee and the audit fee had a favorable and substantial impact on the caliber of financial reporting. Nevertheless, the quality of reporting is not significantly impacted by meeting size, financial expertise, or venue. They therefore concluded that the independence of the committee should be emphasized due to its significant contribution to the standard of financial reporting. Also, audit fees being auditors' payment for their services should be given due consideration as any increase in it will encourage the auditors to be more vigilant and diligent when performing their assigned duties which will have a great influence on the quality of reported earnings.

Mbatuegwu et al., (2022)investigated how the financial expertise of the audit committee moderates the relationship between the audit quality and monitoring attributes of Nigerian-listed oil and gas companies. Data from 9 listed oil and gas firms was extracted from their annual financial report. Regression was employed as a technique and stata as a tool to analyze the data. Their discoveries demonstrated that audit quality and non-executive directors of listed oil and gas firms were essentially moderated by the financial skill of the audit committee. Conversely, it has a considerable, albeit unfavorable, impact on the relationship between ownership concentration and audit quality.

The investigation of Hewage and Amarasekara(2022) examined how Sri Lankan listed firms; quality of financial reporting was affected by corporate governance. 209 firms made the example and study period going from 2017-2020 The absolute discretionary accrual value served as a stand-in for the quality of earnings. Firm governance tools were represented by the size of the board, independence, CEO duality, audit committee independence, and financial

knowledge. Only board size and audit committee financial expertise had been discovered to greatly influence financial reporting quality out of the proxies of firm governance tools used in the study. The quality of the financial report was found to be positively impacted by board size but negatively impacted by the audit committee's financial expertise.

Amah and Ekwe(2021)in their study impact of governance framework on the quality of reports filed by Nigerian listed pharmaceutical firms used a sample of 10 pharmaceutical firms covering periods between 2006-2019. Dechow and Dichev (2002) were used to measure earnings quality. Corporate governance was exemplified by the board's independence, composition, meetings, ownership structure, gender composition, and autonomy of risk monitoring and audit committees. Results of the study demonstrated that ownership structure, gender build-up, board independence, and board composition all positively impact the quality of financial reporting. The meeting schedule for the risk management committee and audit committee's credibility, however, has no bearing on the sampled firms' earnings quality. Additionally, how frequently the board convenes has a negligible detrimental effect on the caliber of earnings.

Saleh et al., (2020) examined the link between monitoring characteristics and earnings quality of listed conglomerate firms in Nigeria. Their study covered periods from 2010-2019 and adopted the entire population of six (6) listed conglomerate firms as a sample using a census sampling approach. They employed the Francis et al. (2005) model to gauge the quality of earnings and included institutional ownership, board independence, and audit committee independence as study-independent variables. The results of the research demonstrated that, although board autonomy and corporate ownership have a discernible beneficial effect on earnings quality, the autonomy of the audit committee has an adverse relationship with it. Given their findings, they recommended company boards be composed more of independent directors and their ownership structure composed more of institutional owners because of the significant monitoring effect they have on managers' activities.

Theoretical Underpinning

Stakeholder Theory, originated by Edward Freeman (1984) moves the goal of a business beyond just making money for its owners (shareholders) to serving and balancing the interests of all groups essential to its survival (Freeman, 1984). These key groups include employees, customers, suppliers, the community, and shareholders. The theory argues that to be successful in the long run, a company must manage these relationships effectively, meaning it needs to be transparent, honest, and accountable to everyone who has a stake in its outcomes. For management, operating ethically and communicating reliable information isn't just a moral choice, it's a strategic necessity for maintaining the trust and cooperation needed for the company to thrive (Freeman, 1984).

This perspective provides a vital foundation for understanding financial governance. The system of monitoring mechanisms exists to ensure management doesn't prioritize its own short-term gains over the interests of the wider stakeholder group, which would be reflected in poor quality of reported earnings. When earnings reports are unreliable, stakeholders are misled. This ranges from banks making lending decisions detrimental to the operations to employees relying on a false premise about a firm's stability. The external audit quality acts as the crucial third-party validation that the monitoring mechanisms are working and that the reported earnings are trustworthy. By verifying the financial statements, a high-quality audit provides assurance to all stakeholders that the company is meeting its disclosure obligations, which ultimately sustains the confidence and capital flow necessary for the firm's continued existence (Freeman, 1984).

3.0 Methodology

This study adopted expost facto research design, this is because expost facto is mostly used by researchers to establish or examine the analytical connection involving more than one variable. The study population incorporates all (8) oil and gas firms listed on the floor of the Nigerian Exchange Group (NGX) as of 31st December 2024. The sample comprised of seven (7) listed oil and gas firms in Nigeria which were arrived at using purposive sampling method that excluded Aradel Holdings Plc. which was listed in October, 2024. Data employed in the study were from secondary sources and multiple regression technique of analysis adopted.

In line with prior literature, the following model is used as the parsimonious models of the study

$$QRE_{it}=\beta_{0it}+\beta_1 BI_{it}+\beta_2 ACI_{it}+\beta_3 IO_{it}+\beta_4 AQ_{it}+\beta_5 BI_{it}*AQ+\beta_6 ACI_{it}*AQ+\beta_7 IO_{it}*AQ+\varepsilon_{it}$$

Where:
QRE is the quality of reported earnings
BI is board independence
ACI is audit committee independence
IO is institutional ownership
AQ is Audit Quality
β_o is the Constant term
β_1-β_7 is Coefficients
i= firm
t= time/year
ε is the Error term

Table 1:
Variables and their Measurement

Variable Name	Type of Variable	Measurement	Sources
Quality of Reported Earnings (QRE)	Dependent	Absolute value of the residuals of discretionary accruals using Yoon et al., (2012) model.	(Saleh et al., 2023);(Akpan & Nsentip, 2019);(Echobu et al., 2019)
Board Independence (BI)	Independent	The proportion of non-executive directors to total board members	(Hewage & Amarasekara, 2022); (Ajiboye & Ibrahim, 2022); (Enoidem et al., 2023)
Audit Committee Independence (ACI)	Independent	The proportion of non-executive directors to total members in the audit committee	(Akanbi et al., 2022); (Bawuah, 2024); (Obeitoh et al., 2024)
Institutional Ownership (IO)	Independent	Proportion of shares held by institutional investors to the total number of shares in issue	(Ajiboye & Ibrahim, 2022); (Baba, 2022); (Saleh et al., 2020)
Audit Quality (AQ)	Independent	The dummy variable is coded "1" if the firm is audited by a big-4 audit firm and "0" if otherwise	(Bawuah, 2024); (Oladejo et al., 2025)

Source: Compiled by Author from prior literature, 2025.

4.0 Presentation of results and Discussions

Table 2:
Descriptive Statistics

Variables	Observations	Mean	Standard dev.	Minimum	Maximum	Normality
QRE	70	0.0239	0.0284	0.0013	0.1156	0.00000
BI	70	0.6929	0.1167	0.3333	0.9000	0.11770
ACI	70	0.4552	0.1222	0.2000	1.0000	0.00000
IO	70	0.5784	0.2702	0.0000	0.8760	0.00000
AQ	70	0.5714	0.4984	0.0000	1.0000	0.99999

Source: STATA Output, 2025.

Table 2 shows based on the total of 70 observations that the quality of reported earnings of listed oil and gas firms in Nigeria has a minimum and maximum values of 0.0013 and 0.1156 respectively. It likewise has a mean value of 0.0239 which low and close to zero and it indicates low earnings management among listed oil and gas firms in Nigeria. There is also low disparity in values as observed from the standard deviation value which is also small and implies that the data for quality of reported earnings are not highly dispersed.

Board independence has an average value of 0.6929 with minimum and maximum values of 0.3333 and 0.9000 respectively. This means that on average, over 69% of members of the board of directors of listed oil and gas firms in Nigeria are non-executive directors. This is also an indication of compliance with the code of corporate governance that requires two-thirds of the members of the board of companies to be non-executive directors. The standard deviation value of 0.1167 which is below the mean value indicates low dispersion of the data.

The level of independence of the audit committee has an average value of 0.4552, with the lowest and highest values of 0.2000 and 1.000, respectively. This suggests that the audit committee's non-executive director makeup ranges from 20% to 100%. This indicates that the audit committee of listed oil and gas companies in Nigeria consists of at least one member whom is a non-executive director which is not in tandem with the code of corporate governance are requires audit committees of listed firms in Nigeria to be made up of 50% non-executive directors. Once more, the data is not widely scattered from the mean, as indicated by the average coefficient of 0.4552 and standard deviation of 0.1222.

From the data extracted from listed oil and gas firms in Nigeria, it can be seen that the average institutional ownership is 0.5784 whereas the smallest and largest values within the period are 0 and 0.8760 in that order. The mean indicates that over 57% of the equity ownership of the sampled firms is contributed by institutional shareholders and it is noted that there are firms which zero institutional ownership when others have up to 87.60%. The standard deviation value of 0.2702 is an indication of a high deviation from the mean.

Audit quality has the lowest and highest values of 0 and 1 respectively which indicates that there are listed firms in the oil and gas industry that were audited by big 4 audit firms while others used auditors other than the big 4 firms. It also has mean and standard deviation values of 0.5714 and 0.4984 respectively. The mean value of 0.5714 implies that over 57% of the sampled firms were audited by at least one of the Big 4 audit firms. The standard deviation result which is lower than the mean implies a low deviation from the mean.

The test for normality was conducted using Shapiro wilk and can be seen from the probability values which are all significant except for board independence and audit quality and this depicts that data employed are not distributed normally.

Correlation

Table 3:
Correlation Matrix and Normality

	QRE	BI	ACI	IO	AQ
QRE	1.0000				
BI	-0.2166	1.0000			
ACI	-0.1348	0.0869	1.0000		
IO	0.0598	0.2283	0.0304	1.0000	
AQ	-0.2859	0.5665	0.0958	0.3153	1.0000

Source: STATA Output, 2025.

Table 3 depicts that the quality of reported earnings correlates negatively with all the independent variables of the study except for institutional ownership which is positive. This correlation is however significant with board independence and audit quality. It however correlates insignificantly with audit committee independence and institutional ownership.

Board independence correlates positively all other independent variables. Board independence also has a significant association with institutional ownership and audit quality but insignificantly with audit committee independence. Further, audit committee independence correlates weakly with both institutional ownership and audit quality. Whereas institutional ownership correlates positively and significantly with audit quality. These results implies that quality of reported earnings relates negatively to monitoring mechanism variables used in the study. However, this cannot be used to generalize since correlation only depicts the level of association between variables. Also, the insignificant association between the variables is an indication of the absence of harmful multicollinearity.

Table 4:
Multicollinearity Test Result

	VIF	1/VIF
AQ	1.56	0.640606
BI	1.48	0.675252
IO	1.11	0.896947
ACI	1.01	0.989252
Mean VIF	**1.29**	

Source: STATA Output, 2025.

This test checks if the selected independent variables used in the study model are highly correlated. Table 4 displays the VIF and tolerance values for the study variables to assess the potential for multicollinearity and all variables show VIFs below 10 and tolerance values below 1 across the panels, indicating no evidence of multicollinearity, as the values fall within acceptable thresholds.

Presentation and Interpretation of Regression Result

Table 5 provides a consolidated overview of the OLS regression outcomes, complemented by diagnostic checks run to reinforce the credibility of the results.

Table 5:
Regression Result

	Coefficient	t-value	Probability
BI	-0.0105112	-0.37	0.716
ACI	0.0547029	1.76	0.083
IO	0.0195019	2.63	0.011

AQ	0.0712965	2.34	0.023
BIAQ	0.005805	0.15	0.884
ACIAQ	-0.0887439	-2.60	0.012
IOAQ	-0.0424414	-2.27	0.027
Constant	-0.0153973	-0.60	0.551
R^2			0.2646
F-stat.			4.55
Sig			0.0004
Hettest			1.29 (0.2553)

Source: STATA output, 2025.

From Table 5 above, R^2 value of 0.2646 entails over 26% change in quality of reported earnings of the study firms is caused by the combined effect of the selected exogenous variables. F-statistics significant at 1% indicates the strength of the fit of the model used and the adequacy of the selected variables. Also from the table, it can be observed that heteroscedasticity is not a problem and there is constant variance in the distribution. Hence the distribution is homoscedastic and OLS regression is sufficient for the study.

Board Independence and Quality Reported Earnings

Board independence was found to have a coefficient of -0.0105112 with a t-value of -0.37 which indicates an insignificant negative impact on the QRE of listed oil and gas firms in Nigeria with a probability value of 0.716. This result implies that a rise in the proportion of nonexecutive directors on the board of listed oil and gas firms enhances earnings manipulations of those firms insignificantly and reduces quality of reported earnings. It is expected that high proportion of independent directors will result to a reduced earnings management in firms and improve the quality of reported earnings because of the wealth of experiences they bring to the board that aids complex decision making. However, when the transfer of information becomes costly, increased board independence will make monitoring a little difficult because members are less informed about some strategies of the firm and thereby making difficult for directors to scrutinize the decisions and policies made by managers. This is supported by the findings of Ibrahim and Abubakar(2019), Saleh et al., (2023), Al-Homaidi et al., (2018), and Uwuigbe et al., (2018)whose investigation uncovered no significant relationship between the variables. It however, contradicts the findings of Enoidem et al., (2023), Saleh et al., (2020), and Magaji et al., (2020). This serves as the basis for the failure to reject hypothesis 1.

Audit Committee Independence and Quality of Reported Earnings

Additionally, Table 4.4 showed that quality of reportedearnings of listed oil and gas firms in Nigeria is positively impacted by audit committee independence, as evidenced by the coefficient of 0.0547029, t-value of 1.76, and probability value of 0.083, which is significant at 10 percent. This implies that the quality of reported earnings will increase by over 5% for every additional non-executive director on the audit committee of publicly traded oil and gas companies. This outcome might be the consequence of uncompromised and independent nonexecutive directors who have little or no connection with the managers and are unbiased when it comes to the discharge of their duties. This outcome concurs to the findings ofObeitoh et al., (2024)Bawuah (2024), Ali et al., (2024), Shika et al., (2022)Surbakti and Shaari, (2018)who tracked down a significant positive connection between audit committee independence and the quality of earnings reported. It is however in opposition to the findings of Echobu et al., (2019), and Hewage and Amarasekara(2022) who found no significant connection between the variables. This, therefore, provided evidence to reject the hypothesis 2.

Institutional Ownership and Quality of Reported Earnings

Furthermore, a t-value of 2.63, a probability of 0.011, and a coefficient of 0.0195019are all visible for institutional ownership. It shows a strong positive relationship between institutional ownership and quality of reported earnings. Therefore, QRE will rise by about 2% for every 1% rise in the ownership percentage held by institutions. This implies that institutional investors are good monitoring tools as they are key to the reduction of discretionary accruals by managers considering the huge investments they have in these firms. They will ensure that all decisions taken by managers align with theirs and hence aiding to improve quality of reported earnings.This finding corroborateswith those of, Baba, (2022),Saleh et al., (2023), Ajiboye and Ibrahim, (2022),Qawqzeh et al., (2019). The finding did not agree with those of, Akindele(2018), Farouk et al., (2019), Nguyen et al., (2021), Oyebamiji (2021), and Saleh et al., (2020). Therefore, the study rejects hypothesis 3.

Audit Quality and Quality of Reported Earnings

Audit quality as depicted in Table 4.4 above has a coefficient of 0.0712965, a t-value of 2.34, and a probability of 0.023. It means that audit quality is significantly impacting the quality of reported earnings of listed oil and gas firms in Nigeria. This implies that changing firm auditors from non-big 4 to a big 4 audit firm by listed oil and gas firms will have a positive significant influence on quality of reported earnings. This finding is in tandem with agency theory that posits that external auditors are a stand-alone monitoring mechanism that could aid mitigate the possibility of managerial earnings opportunism. This finding is backed by those of Bawuah (2024), Ademu et al., (2025), (L. Q. Le, 2025) , and Nwoye et al., (2021). It however contradicts the findings of; Le and Moore, (2023), Abdallah (2018), and Awuye (2022). It is on this premise that the study reject hypothesis 4.

Board Independence, Audit Quality and Quality of Reported Earnings

Board independence moderated by audit quality was found to have a coefficient of 0.005805with a probability of 0.884. It means that the moderated board independence is positively and insignificantly affecting quality of reported earningsof listed oil and gas firms in Nigeria and any increase of nonexecutive directors on the board of the sampled firms moderated by the use of a big 4 audit firm will lead to a rise in the quality of earnings reported by sampled firms by over 0.5% which is statistically insignificant. This outcome is normal since, when the audit committee is more independent and the books of those firms are audited by big 4 audit firms, the presence of the two will improve quality of reported earnings slightly. The introduction of the moderator brought about an adjustment of the impact of board independence from negative to positive, so it very well may be presumed that, while looking at the connection between board independence and quality of reported earnings, audit quality is important to moderate it as it will bring down income smoothening and enhance quality of reported earnings. It is on this note that the study fails to reject hypothesis 5.

Audit Committee Independence, Audit Quality and Quality of Reported Earnings

With a beta coefficient of -0.0887439, t-value of -2.60, and probability value of 0.012, the moderated audit committee independence and quality of reported earnings of listed oil and gas firms in Nigeria were found to be statistically significant at the 5% level. The link between audit committee independence and quality of reported earnings is considerably but negatively moderated by the audit quality, according to this finding. The association between audit committee independence and quality of reported earnings is said to vary negatively and significantly by 8.87% for auditor change from non big-4 to big 4. This outcome is however surprising but might be the consequence of compromise in the independence of some non-executive directors as a result of the connection they have with some of the executives that could influence their judgment. This suggests moderation is not required since audit committee

independence was earlier shown to lower earnings management and improve quality of reported earnings. Also, the relationship's coefficient has now become negative indicating an increased earnings manipulation when the committee is more independent with a big 4 audit firm. In view of the foregoing, the study has evidence to reject the null hypothesis 6.

Institutional Ownership, Audit Quality and Quality of Reported Earnings

Moderated institutional ownership has a coefficient of -0.0424414 and a probability value of 0.027. It implies that, when institutional ownership is moderated by audit qualitywill increase discretionary accrual positively and significantly and reduce the quality of reported earnings of listed oil and gas firms in Nigeria. This indicates that there is a significant moderating effect of big 4 audit firm on institutional ownership. This is so because before the moderation, institutional ownership was observed to reduce discretionary accrual and improve the quality of reported earnings, but the interaction of audit quality changed the effect on QRE to a negative one. Further, it means that should the proportion of institutional ownership increase with a switch of auditor from a non-big 4 to a big, discretionary accruals will increase significantly by about 4%.This may be argued from the perspective that some institutional investors are more inclined to short-term benefits and this coerces managers to smooth earnings and distort the financials to satisfy the desire of these institutional investors in other to retain them which will in turn reduce the quality of earnings reported. The study therefore reject hypothesis 7.

5.0 Conclusion and Recommendation

The study investigated how audit quality moderates the relationship between monitoring mechanisms and quality of reported earnings of listed oil and gas firm in Nigeria covering periods from 2015-2024 employing a sample of 7 firms in the industry. The study found audit committee independence and institutional ownership to be significantly moderated by audit quality while board independence was found not to influence quality of reported earnings significantly when moderated by audit quality. From the above findings, it is therefore concluded that, audit quality is good moderator on the impact of monitoring mechanisms and quality of reported earnings.

Following the study findings, it is recommended that the independence of audit committee of listed oil and gas firms in Nigeria should be strongly upheld and firms should if possible hire the services of big 4 audit firm as their presence was found to discourage earnings smoothening and therefore improve the quality of earnings reported to financial statements users. Also, it is recommended that institutional ownership should be encouraged as it was evidenced that a proportional increase in this variable moderated by a quality audit enhances quality of reported earnings.

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