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Earnings Quality Of The Nigerian Oil And Gas Companies During Global Decline Of Oil Prices

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ABSTRACT

Earnings quality reflects the integrity and quality of financial reporting which minimizes the information asymmetry and agency conflicts among management, owners and the majority and minority shareholders. The issue of earnings quality has become a concern, especially in respect of the Nigerian oil and gas companies as an internal monitoring mechanism to ensure financial reporting quality. The objective of the study was to examine the significant relationship between the Nigerian oil and gas companies and earnings quality during the decline of oil prices in the world market based on the agency theory. The sample of the study was 20 companies drawn equally from the oil and gas and the non-oil and gas companies. Dummy variables 1 and 0 were assigned to both the oil and gas and the non-oil and gas companies respectively. The companies were selected from the Nigerian Stock Exchange for the period of 2014 to 2016 with a total of 60 observations. A discretionary accrual model based on the modified Jones model by Kothari et al. (2005) was used to examine earnings quality of the oil and gas sector. This study revealed a significant negative relationship between Nigerian oil and gas companies and earnings quality during the global decline in the prices of oil. The regression results showed other determinants of earnings management as control variables which included firm performance, financial leverage and firm size to have a significant impact on the earnings quality of the Nigerian oil and gas companies. The results of this study have implications for investors, regulators and market participants.

Keywords: discretionary accruals, earnings management, earnings quality, Nigeria.

INTRODUCTION

In the early 2000s, the downturn in equity markets in most of the nations around the world has been linked to the lack of financial accounting information transparency and earnings quality. A situation that has caused worry for investors over inadequate informative accounting, specifically with respect to reported earnings quality, especially of the Nigerian oil and gas companies in the current downturn of oil prices in the world market. The corporate scandals involving large companies, such as WorldCom, Enron, and Parmalat, amidst others, and the collapse of financial institutions, such as Lehman Brothers, Fortis, and AIG, with the economic recession, have led to a considerable loss in investors' confidence in corporate disclosure authenticity, which causes doubt regarding corporate reporting (Tasios & Bekiaris, 2012).Consequently, the discovery made by the Central Bank of Nigeria in the banking sector has raised serious questions about the relevance, effectiveness, and reliability of reported accounting earnings of the Nigerian companies. The world financial crisis also emphasized and drew attention to the importance of transparency for promoting fair competition, investment, and improving confidence in the public and corporate sectors accountability (Ronen& Yari, 2008).

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The issue underlying the financial reporting quality is not only the main concern to the financial users but also to society, as it impacts on economic decisions (Tasios & Bekiaris, 2012). Since outside financial reporting users are unable to directly view the actual firm earnings, they are highly dependent on reported accounting numbers (Grace & Ambrose, 2012). The quality of financial reporting in the Nigerian oil and gas companies' annual reports should provide useful information to help users in making well-informed decisions about the companies, by reflecting the real financial and commercial positions of the companies. However, the possibility of having financial statements and accounts completely devoid of bias even though the reports and accounts are completely free of error is questionable. It is humanly impossible, considering the regulatory inconsistency and the various choices available to managers in accounting policies that allow the use of judgments or opinions regarding the information disclosed by the management, which most at times is aimed at communicating information that is self-serving. Therefore, for the public to rely heavily on accounting information and regard it as of quality, it must be timely, neutral, accurate, relevant, comparable, transparent, understandable, predictive, verifiable and unambiguous in its entirety.

Earnings quality is the opposite of earnings management, meaning, more earnings management results in fewer earnings quality (Ewert & Wagenhofer, 2013). Earnings management refers to account manipulation that is due to the management's desire to mislead investors and to gain some benefits; for example, to reduce political costs, to avoid variation of debt to equity ratio, and to increase the manager's wealth, all of which affect the financial reporting quality (Radzi, Islam, & Ibrahim, 2011; Sun, 2012).

The scope of the study comprises of ten oil and gas companies and ten nonoil and gas companies listed on the Nigerian Stock Exchange, thereby bringing the total number of companies to twenty as applied in the studies of Kajol and Sunday (2008), Salman *et al.* (2014), and Javed and Shah (2015). The selection of the ten oil and gas companies was because, there were only eleven oil and gas companies listed on the Nigerian Stock Exchange as at 2016, out of which one company had an incomplete financial report. Dummy variable 1 and 0 were used to represent the oil and gas and nonoil oil and gas companies respectively. The study is limited to the oil and gas sector by examining its discretionary accruals as a proxy for earnings quality during the global decline of oil prices. The study focuses on the comparison of the effectiveness of earnings quality of oil and gas and nonoil and gas companies listed on the Nigerian Stock Exchange during the fall of oil prices in the world market. The study covers athree-year period, from 2014 to 2016. The three-year period is considered adequate to generate sufficient data and the use of discretionary accruals for the study as observed in the studies of Kamau and Namusonge(2016), Gul *et al.* (2003), and Jaggi *et al.* (2009), also because the trend of the decline in oil prices in the world market started in 2014.

Problem Statement

Since the global financial crisis of 2008, concerns about earnings quality as a measurement of financial reporting quality have increased as evidenced by the new regulatory and institutional reforms. Such concerns led to the aim to ensure that oil and gas companies in Nigeria improve their financial reporting, which, consequently, will enhance the investors' confidence (Shehu & Abubakar, 2012). The main objective of investors in profit-seeking enterprises is the maximization of their wealth which means the maximization of the present value of the future cash flows. For the investors to maximize their wealth, investment

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decision requires information that would permit them to forecast the future cash flows from the investment and the accompanying volatile risks (Grace & Ambrose 2013). The investors obtain the information they need from the financial reports to evaluate the risks and investments' future cash flows of the companies. Therefore, the earnings quality of the reports would strongly impact the decisions made by the investors in the Nigerian oil and gas sector.

Financial reporting quality of the oil and gas companies require them to expand the quality of information and the scope they report voluntarily, for ensuring that the participants in the markets are well informed to make well-acquainted decisions on their credits, investments etc. The high-quality information of earnings in oil and gas companies facilitates greater transparency and the greater transparency reduces the information asymmetry and satisfies stakeholders and investors' needs.

Observations have shown in the different literature that companies lean towards manipulating financial information to meet the expectations of investors or reducing some financial burdens from the authorities. According to the observation arrived at by Hassan and Bello (2013), when the operating performance of the oil and gas companies are poor, managers tend to increase earnings, yet, when the operating performance is tremendously poor, some of the companies may reduce their income further, a situation referred to as 'taking bath' approach. Hassan *et al.* (2006) implied in their study that the oil and gas companies' quality of financial reports would most likely be influenced by the choices they make in terms of capital structure. Adelopo (2010) noted in his study that the more leveraged the oil and gas companies are, the higher would be the quality of their earnings.

Another performance factor affecting earnings quality of the financial report is liquidity, Easley and O'Hara (2004) revealed that the more liquid an oil and gas company possesses, the better the quality of earnings report that would be presented. Additional factor noted in the literature is the composition of the board articulated by independent directors. Hassan and Bello (2013) reasoned that independent directors are capable of monitoring managers effectively and efficiently to enhance the quality of reported earnings conveyed to the users of annual reports because they are free from managerial influences. Accounting conservatism and firm size also constitute the determinant factors of quality of reported earnings as examined by (Ramadan, (2015); Surroca, Tribo & Waddok, (2010); Ismail & Elbolok, (2011); Jain, (2004).

The study conducted by Bal (2016) shows that the sampled oil companies in India resorted to income-decreasing accruals to understate their earnings during the period of oil hike for the avoidance of taxes, the imposition of new policies and pressure from the government to claim for less subsidy. All the sampled companies show a negatively significant relationship with discretionary accruals. Hence, the study disclosed that the oil companies involved in earnings management such that the price of oil is correspondingly enhanced. The study of Hsiao *et al.* (2016) which examined the earnings management opportunity for US oil and gas companies during the 2011 Arab Spring also found that the US oil and gas companies engaged in income-decreasing earnings management during the Arab Spring. Byard (2007) in his study found that the oil companies based in the US engaged in earnings management instantly after the effect of hurricane Rita and Katrina. In addition, it was found that the large oil companies engaged in more of income-decreasing accruals when compared to the smaller oil companies.

In Nigeria, past studies such as (Shehu, 2011; Shehu & Abubakar, 2012; Adeniyi & Mieseigha, 2013; Okolie, Izedonmi & Enofe, 2013; Okolie,2014; Omoye & Eriki, 2014; Salawu, 2017) were mainly focused on the earnings quality of the manufacturing sector of the

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economy. The study of (Farouk, 2014) examined the firm attributes and earnings quality of the oil and gas companies listed on the Nigerian Stock Exchange and found that firm performance, leverage, and firm size are significantly related to earnings quality. To the best of my knowledge, this is the study that sought to examine the earnings quality of oil and gas companies listed on the Nigerian Stock exchange in the presence of a current decline of oil prices in the world market.

Research Objective

The research objective of this study is as follow:
To examine the significant relationship between the Nigerian oil and gas companies and earnings quality during the current decline of oil prices in the world market.

Research Question

This study intends to find an answer to the following research question:
Does the current decline of oil prices in the world market affect the earnings quality of the Nigerian oil and gas companies?

Research Hypotheses

The following hypotheses are tested

H_{1a} There is a positive significant relationship between the Nigerian oil and gas companies and earnings management.

H_{1b} There is a negative significant relationship between the Nigerian oil and gas companies and earnings quality.

LITERATURE REVIEW

Quality of Financial Reporting

The Accounting Standards Board (1999) described the quality of financial reporting as "the extent to which the financial reporting provides fair and true information about underlying economic performance and the organization's financial position". The Financial Accounting Standards Board (FASB) (2008, p.13) indicated that the objective of financial reporting is "to provide financial information concerning the reporting entity that is valuable to the present and potential equity investors, lenders and other creditors who have to make decisions in their position as capital providers". These objectives focus on the accounting information that is beneficial to stakeholders in decision-making, the information must be real and fair to reflect a firm's economic position and the users of financial reporting, such as investors, lenders and other creditors, who make their decisions based on the reported information (Tasios & Bekiaris, 2012). Additionally, Miettinen (2008, p. 54) defined the quality of financial reporting as "how well a company's financial information reflects the true economic circumstances of the company".

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Financial reporting quality can be described as transactions wherein financial report issuers provide information to users to enhance their financial decisions (Tasios & Bekiaris, 2012). In addition, the financial reports are considered as useful methods of communicating financial information to the potential users. Due to the presence of information asymmetry and the agency conflicts between managers' interests and external users, auditors should audit financial reporting. This is an option available for monitoring arrangements that can enhance the financial reporting which consequently increase investors' confidence about the firm performance and traded securities that reflect the company image (Ismail *et al.*, 2010; Johl, Kaur & Cooper, 2015).

High information quality can decrease the issue of agency costby filling in the gap of information asymmetry that arises between shareholders and managers (Karamanou & Vafeas, 2005). However, no consensus has been reached as to what comprises the financial reporting quality; for example, the Blue-Ribbon Commission (BRC) (1999) and Sarbanes-Oxley Act (SOX) mandate auditors to discuss the financial reporting quality methods and acceptability. In terms of empirical research, Jonas and Blanchet (2000, p. 353) claimed that owing to the new requirements, audit committee members, auditors and management are trying their best to provide a definition of financial reporting quality. Issues often identified by prior studies (Al-Shetwi *et al.*, 2011; Barth, Landsman & Lang, 2008; Garcia, Barbadillo & Perez, 2012; Jonas & Blanchet, 2000; Nichols & Wahlen, 2004; Owens-Jackson, Robinson & Shelton, 2009; Tasios & Bekiaris, 2012) the impact of corporate governance, earnings management, earnings quality, and fraud on the financial reporting quality.

Earnings Quality

Despite the considerable research on earnings quality, no consensus has been reached concerning its definition and its measures (Zhou, 2008). According to Dechow *et al.* (2012), high-quality earnings should represent the accurate current operating performance of the firm. It should effectively indicate the firm's operating performance in the future and as well as provide a useful measurement of the value assessment of the firm. On the other hand, the definition provided by Schipper and Vincent (2003) concentrated on the decision usefulness as they defined earnings quality to mean the level at which earnings reported accurately reflect income.

Ismail, Dunstan and Van Zijl (2010) described earnings quality as the absence of earnings management. In addition, earnings are the output from all company transactions that reflect the quality of the plans and policies set by managers and are considered an important criterion to evaluate the company directors. Based on this statement, the earnings should be true and fair to reflect a company's image.

The earnings management is utilized as a proxy to reflect the earnings quality. High earnings management means low earnings quality and vice versa (Dechow *et al.*, 2012). Earnings management is the change or management of the process of financial reporting to obtain private benefit (Schipper & Vincent, 2003). Dechow and Dichev (2002) claimed that the managers use earnings management in financial reporting to stakeholders concerning the actual financial position of the company or to manipulate firm value. Ronen and Yaari (2008, p.25) defined earnings management based on three colours, White earnings management: "refers to the leveraging of selection of accounting treatment that relays the manager's private information regarding future cash flows, grey earnings management refers to the selection of an accounting treatment that is neither opportunistic, in that, it is not limited to maximized management utility nor economically efficient, and lastly, black earnings

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management refers to the use of misrepresentation on or the minimized transparency of the financial reports".

Earnings management are two types. First, is accrual-based earnings management, in which management use accruals to manage earnings; because the accruals account for equal discretionary and nondiscretionary accruals, the nondiscretionary accruals are out of management control, while the part of discretionary accruals (DA) is in the estimation of management who can use it to manage earnings and mislead financial users to obtain some personal benefit or attain some analysis target; this type is the bad earnings management. Second, is real earnings management, which Roychowdhury (2006) defined as "departures from normal operational practices motivated by managers' desire to mislead at least some stakeholders into believing certain financial reporting goals have been met in the normal course of operations". He examined the real earnings management activities through manipulation and found evidence suggesting discounts in the price in the short term to increase sales, increase production to decrease the cost of the commodities sold and discretionary expenditure to enhance reported earnings.

Accordingly, Cohen et al. (2008) classified real earnings management into the three following manipulative methods; first, providing discounts to stimulate sales or granting lenient credit terms, second, decreasing the cost of goods by increasing production and third, decreasing the expenses that considered discretionary such as research and development and advertising expenses. Besides increasing earnings rather than accruals method or using both methods to manage earnings, Xu, Taylor, and Dugan (2007) mentioned that managers might manipulate the three different activities operating, investing and financing.

Earnings quality is one of the top characteristics of financial reporting systems (Ewert & Wagenhofer, 2011). According to Gorgieva-Trajkovska and Kostadinovski (2012), high-quality financial reporting is believed to enhance the efficiency of the capital market and thus investors and other users would be interested in high-quality financial accounting information, standards setters try to create accounting standards as such modifications in corporate governance and internal control contribute to the earnings quality. Earnings quality has been addressed in many empirical studies for the following reasons: to present the changes in trends over time, to evaluate the financial accounting standards changes in institutions in terms of enforcement and corporate governance, to conduct a comparison of financial reporting systems in various countries, and to study the impact of earnings quality on the quality of financial reporting (Mojtahedi, 2013).

Oil and Gas and Earnings Quality

The study conducted by Bal (2016) shows that the sampled oil companies in India resorted to income-decreasing accruals to understate their earnings during the period of oil hike for the avoidance of taxes, the imposition of new policies and pressure from the government to claim for less subsidy. All the sampled companies show a negatively significant relationship with discretionary accruals. Hence, the study disclosed that the oil companies involved in earnings management such that the price of oil is correspondingly enhanced. The finding is also consistent with the study of Hsiao *et al.* (2016) which examined the earnings management opportunity for US oil and gas companies during the 2011 Arab Spring.

Meanwhile, the studies conducted by (Dayanandan & Donker, 2011; Henriques & Sadorsky, 2011) reveal that decline in crude oil prices has positively and significantly impacted on the performance of oil and gas companies in the United States by means of accounting measures

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of performance. Whereas, the financial crisis of 2008 influenced negatively the prices of oil as well as the financial performance of the oil and gas companies.

Investment Decision and Earnings Quality

With regards to an investment decision, in the literature pertaining to earnings management, it is primarily recognized that an increase in investment in a company has the tendency of an increase in the manipulation of discretionary accruals for reporting higher earnings. The studies conducted by Perry and Grinaker (1994), McNichols and Stubben (2008), Raman and Shahrur (2008) revealed the positive and significant relationship between investment decision and earnings quality. However, the study of Ramadan (2015) found a positively insignificant relationship between investment decision and earnings quality of the Jordanian manufacturing companies.

Firm Performance and Earnings Quality

As for firm performance, the study of Farouk (2014) showed that firm performance as proxiedby return on assets (ROA) has a negative and significant impact on the oil and gas companies listed on the Nigerian Stock Exchange, which indicates that the lower the firm performance the higher the possibility of engaging in earnings management for producing financial reports that are of low quality and vice versa. The finding is consistent with the studies conducted by Yassin *et al.* (2011) and Ramadan (2015), who also found the existence of a statistically positive and significant relationship between firm performance and earnings quality. The result implies that whenever the financial performance of the companies improves, their earnings increase resulting in high-quality of reported earnings and vice versa.

Financial Leverage and Earnings Quality

A higher level of debt can increase agency costs, and therefore decreases managerial cost that could be induced to provide a greater level of disclosure in annual reports and enhance financial reporting quality (Mangena & Pike, 2005). Support for this relationship was found in Spanish companies (Wallace *et al.,* 1994) and in the Dutch study (Deumes & Knechel, 2008). Furthermore, a study conducted by Farouk (2014) showed that leverage is negatively significant with earnings quality of the Nigerian oil and gas companies. The finding indicates that the higher the leverage acquired by a company the higher the possibility of engaging in earnings management thereby producing the low quality of financial statements. These findings are also consistent with the studies conducted by Yassin *et al.* (2011) and Ramadan (2015).

There are hypotheses that benefit/cost tradeoffs of accounting choices change in the period when capitals are raised by the companies. The greater utility connected to the price or availability of the capitals may intensify the choices and benefits of opportunistic accounting. Hence, the accounting choices of the companies, as well as their quality of earnings, may differ when raising capital.

Accounting conservatism and Earnings Quality

As for accounting conservatism, the study of Ramadan (2015) showed a direct significant impact of accounting conservatism on the earnings quality of the listed manufacturing companies in Jordan. Similarly, the studies conducted by Chen *et al.* (2007), Ball and Shivakumar (2008), Lafond and Roychowdhury (2008) and Yassin *et al.* (2011) found

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accounting conservatism measured by the asymmetric timeliness of earnings, declined with managerial ownership. Therefore, the negative relationship between the asymmetric timeliness of reported earnings and managerial ownership is healthy, based on various controls such as investment opportunities.

Firm Size and Earnings Quality

Several kinds of literature have relayed the relationship between firm size and earnings quality. The study conducted by Farouk (2014), where they examined the attributes of firms on the earnings quality of listed oil and gas companies in Nigeria, found that firm size influences earnings quality of the Nigeria oil and gas companies negatively, strongly and significantly. This could be the fact that large companies are susceptible and visible to governmental attacks, ranging from pressure to meet up with social responsibility, excessive regulation to impose price control and higher company taxes which may prevent them from disclosing some vital facts in their financial reports. This is also consistent with the study of Ramadan (2015) which showed a directly significant relationship between firm size and earnings quality of the Jordanian manufacturing companies.

Cash Holding and Earnings Quality

Cash holding plays an important role in the sustainability of any company. Farouk (2014), in his examination of the earnings quality of the Nigerian oil and gas companies, found cash holding to be positively significant to earnings quality. He further observed that maintaining higher cash or liquidity is a paramount concern of investors, regulators, and users of financial reports considering the basis of the goingconcern of the business and the ability to meet obligations. Hence, a company with higher cash holding can disclose financial statements that are of high quality. But the finding above is not consistent with the study conducted by Ramadan (2015), in which cash holding was found to be positively insignificant with earnings quality of the Jordanian Manufacturing companies.

Earnings Quality Measurements

The basic indicators of earnings quality are accruals due to its importance (Al-Dhamari & Ismail, 2012; Hashim & Devi, 2007; Ismail *et al.*, 2010; Saleh *et al.*, 2005; 2007). Prior studies use the accounting-based and market-based measures of earnings quality (Hunton *et al.*, 2011; Saleh *et al.*, 2007; Shiri, Vaghfi, Soltani & Esmaeli, 2012). Accounting-based measures assume that higher quality earnings allow for better estimation of future cash flows, earnings, or earnings components. In general, more persistent, more predictive, and less managed earnings lead to higher earnings quality (Hwang & Lee, 2012; Penman & Zhang, 2002). Earnings are also supposed to be higher quality when accrual estimation errors are lower (Dechow & Dichev, 2002).

Researchers have also taken up different measures for the measurement of earnings quality, and they summarized that the most widely utilized measures of earnings quality include persistence and predictability, smoothness, accrual quality, timeliness, value relevance and conservatism (Ball, Kothari & Robin, 2000; Basu, 1997; Dechow, Go & Schrand, 2010; Jones, 1991; Lipe, 1990).

RESEARCH METHODOLOGY

This study utilized secondary data sources from the annual reports and statements of accounts of the sample oil and gas and nonoil and gas companies listed on the Nigerian Stock

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Exchange, for the period covering 2014-2016 as applied in the studies of Kamau and Namusonge(2016), Gul *et al.* (2003) and Jaggi *et al.* (2009). These data were sourced from the FACTBOOK, an annual publication of the Nigerian Stock Exchange (NSE). The study used the data extracted from the annual financial statements relevant to the variables of the study for the three-year study period. The three-year study period was considered sufficient to make an important inference on phenomena under study. Meric, Prober, Eichhorn, and Meric (2004) states that,the longer periods that should be considered averagely when carrying out a research should be 10 years or a little more for alonger period, to reflect the characteristics of the company that have prevailed over a long time ago which may no longer be in existence. The study then analyzed the data based on multiple panel regression analysis.

Model Specification

The research employed a linear multiple regression testing to know the relationship between the dependent variable; earnings quality (DAC) and the independent variables (Nigerian oil and gas companies). Therefore, given the foregoing, and following the modeling procedure of Garcia-Terual and Martinez-Solano, (2007), the study employed the following panel regression equation to effectively cover the explanatory variables embodied in the study. The model is as follow:

$$EQit = \beta0 + \beta1OILit + \beta2IDit + \beta3FPit + \beta4LEVit + \beta5ACit + \beta6FSit + \beta7CHit + \varepsilon it$$

Where EQit = earnings quality for the period, β0 is constant for all the companies over the period, OILit = oil and gas companies coded by dummy variable 1and 0 for non-oil and gas, IDit = investment decision for the period, FPit = firm performance for the period, LEVit = leverage for the period, ACit = accounting conservatism for the period, FSit = firm size for the period, Chit = cash holding for the period, εit = error term for all the companies over the period.

RESULTS AND DISCUSSIONS

The panel regression model measuring the dependent variable for earnings quality was run. However, prior to that, three tests were conducted for the model, they are, the variance inflation factor test for multicollinearity, the Wooldridge test for autocorrelation in the panel data and the serial correlation test for heteroskedasticity. The essence of these series of tests is to ensuremodels are free from multicollinearity, autocorrelation, and heteroskedasticity. Conducting these tests ensures better and more accurate findings.

Summary Table of Model (EQ robust result).

EQ	**Coef.**		**tP>|z|**	
OIL	2.1807		2.15	0.036** ID
1.8807	0.28	0.780		
FP	6.7007	2.42	0.019**	
LEV	4.0507	1.73	0.089*	

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AC	2.6308	0.05	0.959
FS	1.2507	3.89	0.000***
CH	2.0407	0.85	0.397
R-squared	= 0.3003		
F (7, 52)	= 3.49		
Prob.> F	= 0.0039		

*, **, *** are p-values <.10, .05, .01 respectively, Where: EQ (Earnings Quality) = DA (Modified Jones Model (Kothari *et al*., 2005)), OIL (Oil and Gas) = Dummy value 1, ID (Investment Decision) = Total investment divided by total fixed asset, FP (Firm Performance) = Earnings before tax divided by total assets, LEV (Leverage) = Total debts divided by total liabilities, AC (Accounting Conservatism) = Book value divided by market value, FS (Firm Size) = Logarithm of total assets, CH (Cash Holding) = Current assets divided by total assets

There are two approaches when reporting regression, the first way is to use the R square (R^2), and the second approach is to examine the statistical significance of the fit of the regression models. R^2 provides an indication of the amount of discrepancy in the dependent variable in the model clarified by other variables. Thus, the R^2 is frequently used to determine the goodness-of-fit of the model, and the higher the value of the R square, the greater the fit of the model (Hair *et al.*, 2006; Pallant & Tennant 2007). F value is used to evaluate the significance of the fit of the regression's model. There are two ways to evaluate the significance of the fit model using the F-value: (1) comparing the F-value to the table 4.5 value, or (2) using the significant value and comparing it to the alpha value, which is in this study was set at 0.05<0.10. To support the model, the significant value should be less than or equal to 0.10 level of significance (Pallant, 2007). Table 4.5 presents the summary of the regression technique the researcher chose based on the outcome of the tested results.

The findings from the regression disclosed the variable of interest (oil and gas) to be positively significant with a coefficient value of 2.1807 at 5% level of significance (0.036). This is an indication of a strong relationship between the dummy variable (oil) and discretionary accrual which is used as earnings quality's proxy. The interpretation of this finding is that the higher the coefficient value of the oil and gas the higher the earnings management resulting in higher discretionary accrual which eventually produces thelow quality of financial reports. Therefore, the earnings quality of the Nigerian oil and gas companies in the face of aglobal decline in the prices of oil is confirmed to be low because of the high presence of earnings management.

Other variables used in the study such as investment decision, accounting conservatism, and cash holding are found to be positive and insignificant with coefficient values of 1.8807, 2.6308 and 2.0407 respectively. This shows that these variables have no influence on discretionary accrual as aproxy for earnings quality. However, variables such as firm performance, financial leverage, and firm size are found to be positive and significant with coefficient values of 6.7007, 4.0507, 1.2507 respectively, also at respective significant levels of 5%, 10%, and 1%. Based on these findings, the coefficient value of firm performance is the highest, signifying that the oil and gas companies engaged in earnings management to present financial reports that show better performance. The results also reveal that the higher the financial leverage of the companies the higher the earnings management in the financial reports which will eventually reduce the quality of earnings of the companies. Firm size is

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one of the control variables used in the study, its result also shows that the bigger the sizes of the companies, the greater the possibility of them engaging in earnings management to manipulate their financial reports.

Conclusion

In conclusion, the objective of the study has been achieved and the research question was answered aside the limitations the study encountered. However, for recapitulation, let us recollect the research objective and relate it to the findings. The main objective was to examine the significant relationship or impact of the Nigerian oil and gas companies with earnings quality during the decline of oil prices in the world market. The findings revealed a significant negative relationship between Nigerian oil and gas companies and earnings quality, implying there was earnings management in the discretionary accrual to boost the earnings of the Nigerian oil and gas companies during the current fall of oil prices in the world market. The determinants of earnings quality examined as control variables revealed the following relationships; firm performance, financial leverage and firm size showed positive and significant relationships with the earnings quality of the Nigerian oil and gas companies. Whereas accounting conservatism, investment decision, and cash holding revealed positive and insignificant relationships with earnings quality of the Nigerian oil and gas companies during the period of oil price decline.

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