



EARNINGS MANAGEMENT AND TIMELINESS OF FINANCIAL REPORTS AMONG LISTED NIGERIAN FINANCIAL SERVICES FIRMS

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Abstract

Earnings management can cause delays in the timely presentation of financial reports, as management may wait for last-minute opportunities to manipulate earnings before closing their accounts. Therefore, this study examines the relationship between earnings management and the timeliness of financial reports for listed Nigerian financial services firms. This research adopts discretionary accruals (DA), real earnings management (REM), and cash flow management as common earnings management practices, while timeliness is proxied by audit report lag. An ex post facto research design was utilized. The population for this study consists of 43 firms, and a purposive sampling technique was employed to select 20 listed financial service firms. Data were obtained from secondary sources over a 10-year period, spanning 2014-2023. Findings revealed, among other things, that discretionary accruals and real earnings management have a significant negative and positive relationship with audit report lag, respectively. The study concludes that firm managers who engage in discretionary accruals are likely to improve the timeliness of their financial reports, whereas production-based real earnings management may ultimately lead to delays in publishing financial reports. Therefore, the study recommends that firm managers continue to adopt the discretionary accrual method to enhance the timeliness of their financial reports.

Keywords: Earnings Management, Discretionary Accruals, Real Earnings Management, Cashflow Management, Audit Report Lag.

JEL Classification: M41, M48

INTRODUCTION

Timeliness has been identified as a crucial quality of financial information. This is perhaps because firms are expected to present their annual reports as a regulatory compliance while enhancing their corporate credibility (Davidson et al., 2024). Such reports are often presented in a positive light to project that the businesses are doing well. Earnings management can significantly enhance the achievement of a positive outlook in financial reports. In Nigeria, it is not uncommon for firm managers to influence reported earnings in financial statements to align them with set targets and/or present a positive view of the firm, particularly in an unstable economic environment (Womenazu & Horsfall, 2022).

Earnings management can be categorized into two types: real-based earnings management and accrual-based earnings management (Hapsoro & Hendrik, 2024). While Real-based earnings management (REM) refers to the practice of managing earnings through routine manipulation activities in order to affect reported earnings through the use of techniques such as sales, overproduction, discretionary spending, and gains from fixed asset sales, Accrual-based earnings management happens when the management of a business makes decisions based on shifting accruals in order to manipulate declared profits and confuse stockholders about the

firm's success (Enyinna et al., 2023). Jones (1991) describes accrual-based earnings as the difference in non-cash working capital before income taxes payable, less total depreciation costs. Jones, however, segregated accrual-based earnings management into two categories: discretionary and non-discretionary.

A firm's economic conditions influence non-discretionary accruals, making them impervious to management discretion. In contrast, discretionary accruals enable management to manipulate earnings opportunistically and project a positive image in financial reports. Hence, the focus of this study on discretionary accruals, real earnings, and cash flow accruals, as well as their impact on the timeliness of financial reports among listed Nigerian financial service firms. Besides, the financial services sector is significant to the Nigerian economy (Jadhav, 2020), concerned with its earnings stability and growth due to its corporate nature. It is thus expected to engage in earnings management (Bhat, 1996).

Utami (2017) and Habbash et al. (2013) suggest that earnings management could lead to inaccurate accounting profits that do not represent the true and fair view of the reporting entity's financial performance, diminish the reliability of financial information, which subsequently lowers the quality of financial reporting and erodes investors' trust in the reliability of the provided information (Utami, 2017; Habbash et al., 2013). More importantly, earnings Management could cause a delay in the timely presentation of financial reports, as management may wait for last-minute opportunities to manipulate earnings before closing its accounts (Enyinna et al., 2023). Again, earnings manipulation may require more work from external auditors to ensure that earnings manipulation does not alter the true and fair view of the financial reports, thus causing a delay in the timely release of financial reports to the public. This suggests a relationship between earnings management and the timeliness of financial reports, which is the fulcrum of this study.

Existing studies may have revealed mixed results regarding the relationship between discretionary accruals, real earnings management, and financial reporting timeliness. This study, therefore, aims to validate earlier findings to authenticate and support a position. Also, there are only a few studies focused on the financial services sector of the Nigerian exchange group. Therefore, there is a need to focus on this sector. Aside from deposit money banks, the insurance firms seem to be the next most liquid financial service industry in Nigeria; thus, they deserve adequate attention to safeguard depositors' and clients' funds. Furthermore, expanding the research scope to include various sectors can provide a more comprehensive understanding of the implications of earnings management across diverse economic sectors. Also, existing literature may have focused more on the effect of earnings management on firm performance (Boachie & Mensah, 2022; Khuong et al., 2019; Kumar et al., 2021), while few studies exist on the effect of earnings management on the timeliness of financial reports (Enyinna et al., 2023); hence, the focus of this study on the timeliness of financial reports. This study, therefore, has the broad objective of determining whether there is a relationship between earnings management types, viz, discretionary accruals, real earnings management, and cashflow earnings management, and the timeliness of financial reports measured by the audit report lag.

LITERATURE REVIEW

Timeliness of Financial Reporting

Iyoha (2012) defined timeliness of financial reporting as the promptness with which companies prepare and release their financial statements to relevant stakeholders, such as shareholders, regulators, and the public. It is measured by the time the Management takes after year-end to release financial reports to the public (Ologun et al., 2022; Ologun, 2021; Oladipupo & Izedonmi, 2009). It is critical to financial reporting quality as timely financial information

enables stakeholders to make informed decisions regarding investments, resource allocation, and business strategies (Brass & Maccarthy, 2022). Companies that consistently report their financial information on time are seen as transparent and well-governed, which can positively influence their reputation and stakeholder trust. Conversely, delays in reporting may signal potential issues such as earnings manipulation, financial instability, or poor management practices, leading to increased scrutiny from regulators and investors (Abubakar et al., 2020). Audit report lag measures the timeliness of financial reports.

Discretionary Accruals

According to Shuaibu and Mohammed (2023), discretionary accruals refer to the portion of a company's accrual-based accounting that management can influence or adjust at their discretion. In accrual accounting, companies recognize revenues and expenses when they are incurred, rather than when cash is received or paid. Discretionary accruals arise when management exercises judgment in estimating certain accounting items, such as depreciation, bad debt provisions, or inventory valuation. These adjustments can be used to manage earnings and smooth financial performance to meet internal or external expectations. Discretionary accruals highlight the subjective nature of certain accounting decisions (Moscariello et al., 2020). While some level of discretion is necessary for accurately reflecting business operations, excessive or intentional use of discretionary accruals can lead to bad earnings management (Goroke et al., 2023). For example, a company might overestimate provisions for bad debts in a profitable year to create reserves that can be reversed in future periods, thereby boosting future earnings. While technically within the bounds of accounting standards, this manipulation can mislead stakeholders about the company's financial health. Discretionary accruals are frequently scrutinized in financial analysis and audits, as they offer insight into potential earnings management (Jamadar et al., 2022). Identifying abnormal discretionary accruals can serve as a red flag for auditors, investors, and regulators, signaling the need for deeper investigation into the company's accounting practices.

Real Earnings Management

Ajiboye and Ibrahim (2022) defined real earnings management (REM) as manipulating a company's actual operations, rather than its financial reporting processes, to achieve specific financial targets or desired accounting outcomes. Unlike accrual-based earnings management, which involves adjusting accounting entries and estimates to influence reported earnings, REM involves making decisions that alter the timing or structure of business activities (Ndulue et al., 2021). These actions can include cutting discretionary spending (e.g., on research and development, advertising, or maintenance), offering discounts to boost short-term sales, or overproducing inventory to lower the cost of goods sold (Roychowdhury, 2006). Although these practices are technically within legal boundaries, they can distort a company's true economic performance, leading to a decline in long-term profitability and sustainability.

Cashflow Management

Cash flow management is a process by which a business or individual monitors, analyzes, and optimizes their cash inflows and outflows to ensure sufficient cash is available to meet operational expenses, debt obligations, and investment opportunities (Nasimiyu, 2023). It involves maintaining a balance between cash receipts (from sales, services, or other income) and disbursements (such as expenses, salaries, and taxes) to ensure liquidity (Osisioma et al., 2020). Effective cash flow management also enables strategic decision-making and long-term planning, allowing for reinvestment in operations, expansion, and debt repayment while minimizing reliance on external financing (Abolo, 2022). This is crucial for the survival and

success of any organization, as poor cash flow can lead to financial distress, even if the company is profitable on paper.

Earnings Management and Timeliness of Financial Reports

Earnings management may benefit firm managers as their performance is rated high when they present financial reports that give a positive business outlook. The extent to which earnings management may have impacted the timeliness of financial reports remains uncertain. Good earnings management does not alter the true and fair view of financial reports; hence, the external auditor's work is optimized, and there are no undue delays in releasing financial reports to the public. Good earnings management by firm managers is, therefore, anticipated to lead to the timely release of financial reports to the public and vice versa. This study proposes that good earnings management, i.e., Discretionary accruals, REM, and cashflow management, would reduce audit report lag, as both management and the external auditor do not spend unnecessary time on financial reporting.

Theoretical Review: Stakeholder Theory

As introduced by R. Edward Freeman in 1984, the stakeholder theory posits that a company should create value for its shareholders and stakeholders, including employees, customers, suppliers, and the broader community (Osisioma et al., 2020). The stakeholder theory assumes that businesses balance and address the interests and needs of all stakeholders. One interest that binds all stakeholders together is the timely reporting of financial statements, suggesting that firm managers can achieve better results with earnings management by considering the impact of their decisions on all stakeholders (Enyinna et al., 2023; Shuaibu & Mohammed, 2023). When managers engage in earnings management, they tend to prioritize short-term financial outcomes at the expense of long-term stakeholder interests, leading to compromised financial reporting quality, hence the appropriateness of this theory for this study.

Empirical Review and Hypotheses

Discretionary Accruals and Financial Reporting Timeliness

Enyinna et al. (2023) examined the effect of earnings management on financial reporting timeliness among non-financial service firms in Nigeria using data from 78 quoted non-financial firms on the Nigerian exchange group for 2011 – 2021. The study found that accrual-based earnings have a significant impact on the timeliness of financial reporting. However, increases in accrual-based manipulation do not necessarily increase the time taken to release financial reports.

Bangun (2019) also examined the effect of earnings management, proxied by discretionary accruals, on the timeliness of audited financial statements using 41 trading, service, and investment companies listed on the Indonesia Stock Exchange from 2015 to 2017. Binary logistic regression is used to test the hypothesis and findings show that discretionary accruals has a significant negative effect on timeliness financial audited statements, suggesting that for every increase in one unit of earnings management variables, assuming the variable profitability and firm size are fixed or constant, then the possibility of companies submitting annual financial statements on time will decrease by 5.87

Kim et al. (2021) also predicted and found that firms with higher discretionary accruals are more likely to announce earnings late, suggesting a positive correlation between the two. Using a last-chance earnings management measure based on tax expense manipulation, the study also found strong evidence that good news firms engaging in last-chance earnings management are more likely to delay earnings announcements. Consistent with Trueman's theory (Trueman,

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1990) that earnings management explains why investors discount delayed earnings announcements, the study found that, on average, earnings announcement returns are 1.4% lower for late announcers relying on last-chance earnings management to report good news. Overall, the findings suggest that announcement delays provide information not only about the sign of the earnings news but also about the potential for earnings management.

Roswinna et al. (2023) examined the impact of Earnings Management on both Firm Value and the Timeliness of Financial Reporting within the manufacturing sector of companies listed on the Indonesia Stock Exchange between 2014 and 2017, using 104 samples representing 26 manufacturing companies for the period. This study incorporates three independent variables: earnings management, leverage, and profitability. The findings revealed that earnings management significantly impacts firm value, but not the timeliness of financial reporting.

Salgado and Souza (2021) examined the effect of the timeliness of financial reporting on earnings management of publicly traded Brazilian companies listed on B3, using three proxies for timeliness: delay in publication, missing the disclosure deadline, and republication. The study sample consists of 172 companies between 2010 and 2018. The dependent variable represents earnings management and was measured by the Jones Model modified by Dechow et al. (1995). The results, obtained through panel data regression analysis, showed that timeliness has a positive and significant relationship with earnings management; that is, companies that delay or miss the deadline for publishing their financial reports exhibit greater earnings management.

Existing literature suggest mixed findings, hence the need to validate the hypothesis. Based on the existing literature, the following hypothesis is proposed:

H₀₁: Discretionary accruals do not significantly affect the timeliness of financial reports in listed Nigerian financial services firms.

Real Earnings Management and Financial Reporting Timeliness

Enyinna et al. (2023) also found that Real earnings management manipulation could be sales-based or production-based. Sales-based real earnings management manipulation does not increase the time taken to release financial reports. Production-based Real earnings management manipulation has a significant effect on the timeliness of financial reporting. Hence, this study adopts production-based real earnings management to measure the effect of real earnings management on the timeliness of financial reporting in quoted non-financial firms in Nigeria. Kim et al. (2021) also found that, consistent with post-fiscal year-end activities driving announcement delays, there is no significant relationship between measures of real earnings management and late announcements, i.e., delayed financial reporting.

Ezat (2015) investigated the impact of REM on Financial Statement Timeliness (FST) for Egyptian listed non-financial companies from 2011 to 2013, using three ordinary least squares (OLS) regression models to test the main hypothesis of the study. Moreover, a multivariate analysis indicates that both models of REM (the abnormal values of sales and production cost manipulations) are significantly associated with financial statement timeliness. Companies that manage their earnings upward are more likely to accelerate the release of their financial statements and vice versa. Existing studies also suggest mixed findings; thus, the following hypothesis is proposed:

H₀₂: Real Earnings Management does not significantly affect the timeliness of financial reports in listed Nigerian financial services firms.

Cashflow Management and Financial Reporting Timeliness

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Osioma et al. (2020) assessed the effect of operating cash flow on the earnings management of Nigerian Banks using a sample of fifteen (15) Nigerian banks from 2010 to 2019. Regression analysis was used to test the hypothesis, and findings revealed that operating cash flow activities have no statistically significant effect on the total accruals earnings of Nigerian banks and may not have any effect on financial reporting timeliness.

Agbata et al. (2023) empirically investigated Earnings Management (EM) and the financial performance of Nigerian Deposit Money Banks (DMBs). The population was comprised of DMBs, as quoted by the Nigerian Exchange Group. Data from 2012 to 2018 were gathered from the selected quoted DMBs in Nigeria. A simple linear regression method was used to analyze the data. The research findings disclosed a significant effect of EM on DMBs' financial measures, namely, Earnings Before Interest, Tax, Depreciation, and Amortization; Dividend Pay Ratio; and Net Profit Margin. The study concluded that earnings management exists in DMBs and has significant negative and positive effects on their financial performance. Existing literature may have classified cash flow management under short-term Discretionary Accruals (Enyinna et al., 2023) or as part of real earnings management. This study, however, separates cashflow management owing to the attention it often receives from both management and external auditors. Based on this, the following hypothesis was formulated:

H₀₃: Cashflow management does not significantly affect the timeliness of financial reports in listed Nigerian financial services firms.

METHODOLOGY

This study adopted the ex-post facto research design. The population of this study comprises all firms listed on the financial service sector of the Nigerian Exchange Group as at December 2023, totaling 43 (Nigerian Exchange Group, 2024), out of which 20 firms were purposively sampled, representing firms not owned by banks and had all the required data for the entire period, i.e. 2014 to 2023. This is to exclude banks and concentrate on non-banking firms, primarily insurance firms. Secondary data sourced from the published financial statements of sample firms were analysed using the Ordinary Least Squares regression technique. The variables used in this study are audit report lag as the dependent variable and discretionary accruals, real earnings management, and cashflow management as independent variables.

Model Specification

The model for the study was adapted from the work of Roswinna (2023) and Bangun (2019) as follows:

$Arl = f(Da, Rem, Cfm, \text{control variable})$

$Arl = f(Da, Rem, Cfm, Mcap)$

Where Arl is audit report lag, Da is discretionary accruals, Rem is real earnings management, Cfm is cashflow from operations, and Mcap is the control variable of market capitalization.

The stages of determining discretionary accruals are as follows:

Using the Modified Jones Model (Gupta & Suartana, 2018), the model is written as follows (Bangun, 2019:52):

$$TAC_{i,t} = NI_{i,t} - CFO_{i,t} \dots\dots\dots(1)$$

Then, calculate the total accrual value (TAC) using the Ordinary Least Square (OLS) regression equation as follows:

$$\frac{TAC_{i,t}}{TA_{i,t-1}} = \alpha_1 \left(\frac{1}{TA_{i,t-1}} \right) + \alpha_2 \left(\frac{\Delta SALES}{TA_{i,t-1}} \right) + \alpha_3 \left(\frac{PPE_i}{TA_{i,t-1}} \right) + \epsilon$$

By using the regression coefficient above, the nondiscretionary accrual (NDA) value can be calculated using the formula:

$$NDA_{i,t} = \alpha_1 \left(\frac{1}{TA_{i,t-1}} \right) + \alpha_2 \left(\frac{\Delta SALES - \Delta REC}{TA_{i,t-1}} \right) + \alpha_3 \left(\frac{PPE_{i,t}}{TA_{i,t-1}} \right) + \varepsilon$$

Discretionary accrual (DTA) is the residual obtained from the estimated total accrual, calculated as follows:

$$DA_{i,t} = \frac{TAC_{i,t}}{TA_{i,t-1}} - NDA_{i,t}$$

Where:

DA_{i,t} : Discretionary Accrual for a company in period t; NDA_{i,t} : Non-Discretionary Accrual for a company in period t; TAC_{i,t}: Total accruals for a company in period t; NI_{i,t}: Net income / net profit of a company in period t; CFO_{i,t} : Cash flow from operating activities of a company in period t; TA_{i,t-1}: Total assets of a company in period t-1; ΔSALES : Changes in a company’s earnings in period t compared to period t-1; ΔREC : Change of a company’s receivables in period t compared to period t-1; PPE_{i,t} : Property, Plant and Equipment company I in period t
 Total Accruals = (Change in Current Assets - Change in Cash) - (Change in Current Liabilities - Change in Short-Term Debt) - Depreciation

Then, discretionary accruals are estimated by using a regression equation:

$$DACC_{i,t} = \alpha_0 + \alpha_1 (1/A_{i,t-1}) + \alpha_2 (\Delta REV_{i,t} / A_{i,t-1}) + \alpha_3 (PPE_{i,t} / A_{i,t-1}) + \varepsilon_{i,t}$$

Where:

DACC_{i,t}: Discretionary accruals for firm i in year t; α₀, α₁, α₂, α₃: Firm-specific regression coefficients to be estimated; A_{i,t-1}: Total assets of firm i in year t-1; ΔREV_{i,t}: Change in revenue for firm i in year t; PPE_{i,t}: Property, plant, and equipment for firm i in year t; ε_{i,t}: Error term representing the discretionary portion of total accruals.

To measure Real Earnings Management (Rem)

This study uses the production cost manipulation method to investigate REM, specifically, the study uses the abnormal production costs as follows:

$$Prod = \beta_0 (1/TA_{t-1}) + \beta_1 (Sales_t) + \beta_2 (\Delta Sales_t) + \beta_3 (\Delta Sales_{t-1}) + \varepsilon$$

where:

Prod: Production costs = (COGS + Δ Inventory)

COGS: Cost of goods sold; Δ Inventory: Change in inventories from prior year; β₀: Intercept
 TA_{t-1}: Total assets of prior year; Sales_t: Current year sales; ΔSales_t: Change in sales from prior year; ΔSales_{t-1}: Change in sales of prior year from the year before; ε: Residual value

To measure Cashflow management

Cfm = Operating cash flow Ratio

Operating cash flow ratio = Operating Cash Flow / Current Liabilities

Table 1: Measurement of Variables

| Variables | Description | Measurement | Source | Aprori Sign |
|--------------------------------|---|---|--|-------------|
| Dependent Variable | | | | |
| Audit Report Lag | Timeliness of Financial Report | Period between end of accounting year end and date of auditor's report | Enyinna et al. (2023); Oladipupo and Izedonmi (2009) | |
| Independent Variables | | | | |
| Discretionary Accruals (Da) | This refers to the adjustments made to financial statements based on management's judgment, often used to manipulate earnings without directly affecting cash flows. | Total accruals less non-discretionary accruals | Bangun, (2019) | |
| Real Earnings Management (Rem) | This refers to manipulating actual business operations (like cutting expenses or overproducing goods) to meet financial targets, rather than altering accounting entries. | Abnormal production costs (overproduction to reduce cost of goods sold) | Ibobo and Ogbodo (2023) | |

| | | | | |
|---------------------------|---|--|--------------------------|--|
| Cashflow Management (Cfm) | This is the process of monitoring, analyzing, and optimizing the inflow and outflow of cash to ensure a company can meet its financial obligations. | Operating cash flow ratio | Agbata et al., (2023) | |
| Control Variable | | | | |
| Market Capitalisation | This is the total value of all its outstanding shares of stock. It's a measure of a company's overall size. | Market Capitalization = Current Share Price x Number of Outstanding Shares | Riantani, et al., (2023) | |

Sources: Researcher’s Compilation (2024).

RESULTS AND DISCUSSION

Descriptive Analysis

Table 2: Descriptive Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|----------|-----|---------|-----------|--------|---------|
| Arl | 200 | 116.110 | 65.871 | 16.000 | 452.000 |
| Da | 200 | -0.161 | 0.200 | -0.940 | 0.470 |
| Rem | 200 | -1.094 | 0.649 | -2.650 | 0.990 |
| Cfm | 200 | 0.018 | 0.099 | -0.380 | 0.360 |
| Mcap | 200 | 7.381 | 0.404 | 6.540 | 8.390 |

Source: Researcher’s Computation (2024)

The audit report lag (arl) has a mean of 116.110 days with a standard deviation of 65.871 days, indicating a relatively high variation in audit report timeliness among the listed financial service firms. The minimum and maximum values of 16 and 452 days, respectively, suggest that while some firms report promptly, others experience substantial delays. Discretionary accruals (Da) have a mean of -0.161, indicating that, on average, firms are using accrual-based earnings management practices to reduce reported earnings. The standard deviation of 0.200 reflects some level of variability in accrual management practices among the firms. The minimum value of -0.940 and the maximum of 0.470 shows that while most firms engage in downward earnings management, some also increase earnings through discretionary accruals. Managerial incentives, regulatory environment, or economic conditions could influence this range of practices. Real earnings management (Rem) has a mean of -1.094 and a standard deviation of 0.649, suggesting that firms generally engage in real activities manipulation, such as reducing expenses or altering operational decisions, to manage earnings downwards. The negative mean implies that firms may sacrifice future performance for immediate earnings management benefits. The minimum value of -2.650 and maximum of 0.990 demonstrate the varied extent to which firms engage in real earnings management, possibly driven by differences in firm strategy, industry conditions, or regulatory scrutiny.

Cashflow management (Cfm) shows a mean of 0.018 with a standard deviation of 0.099, indicating that firms, on average, manage cash flows with only slight variations. The minimum value of -0.380 and a maximum of 0.360 reveals that some firms either significantly decrease or increase cash flows, suggesting a range of practices in managing operating cash flows potentially influence reported earnings. This variability might be tied to differences in operational efficiency or cash management strategies. Market capitalization (MCAP) has a mean of 7.381 with a relatively small standard deviation of 0.404, suggesting that the market size of the sampled firms is relatively similar. The minimum value of 6.540 and maximum of 8.390 indicate that while there are differences in firm sizes, they are not extremely wide, implying that most of the firms in the study fall within a similar market capitalization range.

Normality Test

Table 3: Shapiro-Wilk Test for Data Normality

| Variable | Obs | W | V | Z | Prob>z |
|----------|-----|-------|--------|-------|--------|
| arl | 200 | 0.814 | 27.738 | 7.645 | 0.000 |
| da | 200 | 0.957 | 6.383 | 4.265 | 0.000 |
| rem | 200 | 0.983 | 2.529 | 2.134 | 0.016 |
| cfm | 200 | 0.964 | 5.357 | 3.862 | 0.000 |
| mcap | 200 | 0.975 | 3.679 | 2.997 | 0.001 |

Source: Researcher’s Computation (2024)

Table 3 shows that all the variables are not normally distributed. The variable = 0.000) is not normally distributed, (prob>z=0.000) as the probability of the z-statistic revealed by the Shapiro-Wilk test is significant at the 1% significance level. Since the probabilities of the z-statistics for all variables are significant, this indicates a departure from normality. Therefore, non-parametric statistical methods such as the Spearman Rank Correlation would be appropriate for examining the relationships between these variables.

Correlation Analysis

Table 4: Spearman’s Rank Correlation

| Variables | (1) | (2) | (3) | (4) | (5) |
|-----------|--------|--------|--------|-------|-------|
| (1) arl | 1.000 | | | | |
| (2) da | 0.026 | 1.000 | | | |
| (3) rem | 0.173 | 0.298 | 1.000 | | |
| (4) cfm | -0.161 | -0.322 | -0.411 | 1.000 | |
| (5) mcap | 0.043 | 0.123 | -0.059 | 0.228 | 1.000 |

Source: Researcher’s Computation (2024)

The results of Spearman’s rank correlation in Table 4 show that there is a weak positive association between the dependent variable of ARL and the independent variable of discretionary accruals (0.026) during the period under study. Similarly, there is a weak positive association between ARL and real earnings management (0.173), indicating that changes in real earnings management are associated with variations in financial reporting quality. However, the relationship between ARL and cashflow management is negative (-0.161), suggesting that higher levels of cashflow management are associated with a decrease in ARL. Regarding the control variable, market capitalization shows a weak positive association with arl (0.043) during the period under study. Among the independent variables, discretionary accruals have a moderate positive association with real earnings management (0.298), while discretionary accruals and cashflow management exhibit a moderate negative association (-0.322). Additionally, real earnings management and cash flow management are negatively associated (-0.411), suggesting that firms engaging more in real earnings management are likely to engage less in cash flow management. Market capitalization shows a weak positive association with discretionary accruals (0.123) and cashflow management (0.228) but a weak negative association with real earnings management (-0.059). Overall, the correlations among the variables are relatively weak to moderate, suggesting that multicollinearity may not be a concern. However, further checks, such as the Variance Inflation Factor (VIF), will be needed to confirm the absence of multicollinearity.

Regression Analyses

Specifically, to examine the cause-and-effect relationships between the dependent and independent variables and test the formulated hypotheses, the study used a pooled OLS regression since the results revealed the absence of heteroscedasticity. The OLS regression results obtained are presented and discussed below.

Table 5: Linear regression

| arl | Coef. | St.Err. | t-value | p-value | [95% Conf | Interval] | Sig |
|-----|---------|---------|---------|---------|-----------|-----------|-----|
| da | -54.695 | 25.242 | -2.17 | 0.031 | -104.479 | -4.912 | ** |

| | | | | | | | |
|--------------------|--------------|--------|----------------------|----------|----------|---------|-----|
| Rem | 25.960 | 7.621 | 3.41 | 0.001 | 10.929 | 40.991 | *** |
| Cfm | -58.863 | 52.074 | -1.13 | 0.260 | -161.565 | 43.838 | |
| mcap | 3.559 | 11.759 | 0.30 | 0.762 | -19.632 | 26.750 | |
| Constant | 110.455 | 87.914 | 1.26 | 0.210 | -62.929 | 283.839 | |
| <hr/> | | | | | | | |
| Mean dependent var | 116.110 | | SD dependent var | 65.871 | | | |
| R-squared | 0.078 | | Number of obs | 200 | | | |
| F-test | 4.121 | | Prob > F | 0.003 | | | |
| Akaike crit. (AIC) | 2235.421 | | Bayesian crit. (BIC) | 2251.913 | | | |
| VIF | 1.20 | | | | | | |
| Hettest | 2.03 {0.122} | | | | | | |

*** p<.01, ** p<.05

Source: Researcher's Computation (2024)

The results in Table 5 suggest that the independent and control variables in the study account for approximately 7.8% of the systematic variation in the dependent variable during the period under study (R-squared 0.078). The remaining 92.2% of the variation is explained by other factors not included in the model, as indicated by the error term. The significance of the OLS model is further supported by the F-test, which has a value of 4.121 with a p-value of 0.003, indicating that the overall model is statistically significant at the 1% level, underscoring its relevance in explaining the variation in the dependent variable. However, to validate the OLS results estimates further, this study also tests for multicollinearity and heteroscedasticity.

Test for Multicollinearity and Heteroscedasticity

The mean VIF for the variables in the OLS regression model is 1.20, which is well below the commonly accepted threshold of 10. This result indicates no severe multicollinearity among the independent variables, thus enhancing the reliability of the estimated coefficients.

The assumption of homoscedasticity was tested using the Breusch-Pagan test, with the results showing a non-significant p-value (Hettest = 2.03, p = 0.122). This result indicates that the assumption of homoscedasticity is not violated, implying the absence of heteroscedasticity in the OLS regression model.

Restatement of Hypotheses

Hypothesis 1: Discretionary accruals have no significant effect on the timeliness of financial reports of listed financial service firms in Nigeria.

Table 5 reveals that discretionary accruals [coef. = -54.695 (p = 0.031)] significantly negatively affect the timeliness of listed financial service firms in Nigeria during the period under study. The result implies that an increase in discretionary accruals will significantly decrease the audit report lag. Hence, the null hypothesis that discretionary accruals have no significant effect on the timeliness of financial reports is rejected.

Hypothesis 2: Real earnings management has no significant effect on the timeliness of financial reports of listed financial service firms in Nigeria.

The results show that real earnings management [coef. [25.960 (p = 0.001)] has a significant positive effect on the timeliness of financial reports of listed financial service firms in Nigeria during the study period. This result suggests that an increase in real earnings management practices is associated with a corresponding increase in audit report lag. Thus, the null hypothesis that real earnings management has no significant effect on financial reporting quality is rejected.

Hypothesis 3: Cashflow management has no significant effect on the timeliness of financial reports of listed financial service firms in Nigeria.

The results indicate that cashflow management [coef. = -58.863 (p = 0.260)] does not have a statistically significant effect on the timeliness of financial reports of listed financial service firms in Nigeria during the period under study. This suggests that changes in cash flow management practices do not significantly alter audit report timeliness. Therefore, the null

hypothesis that cashflow management has no significant effect on financial reporting quality is accepted.

Discussions of Findings

The results indicate that discretionary accruals have a significant negative effect on the timeliness of financial reports of listed financial service firms in Nigeria, measured by audit report lag. This finding suggests that as firms increase their engagement in discretionary accrual practices, the audit report lag decreases, which is beneficial to stakeholders who require timely financial information for informed decision-making. This negative impact suggests that managers' opportunistic behaviors in manipulating earnings can lead to less time required to churn out financial reports, especially when the actions of firm managers are predicated on the interests of the firm's shareholders and stakeholders. Again, discretionary accruals may require less work from external auditors, as firm managers would readily provide guidance on such accruals and the reason for their actions. In this context, the findings align with the conclusions of Enyinna et al. (2023), Bangun (2019), and Kim et al. (2021), but contrast with the findings of Salgado and Souza (2021), who reported a significant positive relationship between the variables.

Similarly, this study found a significant positive relationship between REM and ARL, suggesting that as firms increase their engagement in real earnings management, the audit report lag increases, suggesting a delayed financial report, which is non-beneficial to stakeholders. Real earnings management often involves resource allocation distortions, which can potentially lead to a decline in overall reporting quality. Studies suggest that such practices could lead to long-term operational inefficiencies, ultimately obscuring the firm's true performance and delaying financial reporting. The findings of this study align with the works of Enyinna et al. (2023) but contrast with Ezzat (2015), who found a negative relationship between the variables, and Kim et al. (2021), who found no relationship between the variables. Lastly, the findings of this study reveal that cashflow management does not have a statistically significant effect on audit report lag among the listed financial service firms in Nigeria. This suggests that variations in firms' cash flow management practices do not significantly influence the timeliness of the audit report, implying that auditors may not heavily weigh cash flow management activities when assessing financial reporting quality. This finding aligns with the work of Osisioma et al. (2020), who also found no statistically significant relationship between the variables. The finding is, however, in contrast with the work of Agbata et al. (2023), who found a significantly positive relationship between the variables.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study concludes that firm managers who engage in discretionary accruals would likely improve the timeliness of their financial reports, while production-based real earnings management may eventually lead to firms taking more time to publish their financial reports. Cash management may have little or no effect on the timeliness of financial reports. Therefore, firm managers can also use their discretion to optimize cash flow management.

Recommendations

Based on the findings of the study, the following recommendations are made to corporate managers, policymakers, regulators, analysts, investors, and other stakeholders:

- i. Corporate managers should continue to use discretionary earnings management to optimize the timeliness of financial reporting. Firm managers opine that they have their

- firm's best interest at heart and will always act in the best interest of the shareholders. Additionally, full disclosure is sometimes made regarding the extent of discretionary earnings management employed, thereby making the audit trail easier for the auditor.
- ii. Production-based real earnings management practice should be discouraged as much as possible. Production cost manipulation occurs when managers decide to overproduce products or services rather than meet expected demand. The objective is to reduce the cost of goods sold or the cost of services rendered by spreading fixed overhead costs across a large number of units produced or services rendered. However, this could lead to abnormally high inventory with its attendant costs, while productive capital could also be tied up.
 - iii. Lastly, although cashflow management did not significantly impact financial reporting quality in this study, managers should still ensure sound cashflow management practices to maintain operational efficiency. Regulators and policymakers should promote transparency in cashflow reporting to ensure stakeholder confidence.

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