IAS 37 and Financial Reporting Quality of Listed Oil and Gas Companies in Nigeria

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Abstract

Financial reporting quality (FRQ) in Nigeria's oil and gas sector has been undermined by weak disclosures, opaque recognition of provisions, and limited regulatory enforcement. This study examines the effect of IAS 37: Provisions, Contingent Liabilities, and Contingent Assets on FRQ among listed firms, using audited annual reports from 2020 to 2023. A mixed-method approach combining content analysis and panel regression was applied. The results show that both recognition compliance and disclosure quality significantly enhance FRQ, with disclosure quality exerting the stronger influence. Unlike previous Nigerian studies, this research develops a disclosure-based index of FRQ and integrates it with firm-level factors such as audit quality and leverage. The findings highlight the importance of robust enforcement, clearer disclosure practices, and high-quality audits in strengthening transparency and investor confidence in the extractive sector.

Keywords: Audit Quality, Compliance, Disclosure, IAS 37, Panel Data, Oil and Gas Sector, Nigeria.

1. Introduction

Oil and gas companies, by virtue of their upstream and downstream activities, operate in environments characterized by high operational risk, legal complexity, and environmental impact. These risks create significant financial uncertainties in the form of decommissioning liabilities, environmental restoration costs, and litigation exposures. To address these challenges, the International Accounting Standard (IAS) 37 — Provisions, Contingent Liabilities and Contingent Assets — provides guidance for recognizing provisions when a present obligation arises, settlement is probable, and a reliable estimate can be made. The standard also requires transparent disclosures of contingent liabilities and assets to enhance comparability and accountability in financial statements (IASB, 2023).

In the oil and gas industry, proper implementation of IAS 37 goes beyond compliance: it directly shapes the quality of financial reporting. Transparent recognition of obligations reduces the scope for earnings manipulation and fosters credibility in reported profits. Effective disclosure practices strengthen comparability across firms and assure stakeholders of sound governance and prudent risk management (Okafor & Ogiedu, 2021; Uwuigbe et al., 2016). In capital-intensive industries like oil and gas, where environmental liabilities and decommissioning costs are material, weak compliance with IAS 37 can significantly distort performance indicators and mislead investors.

Despite Nigeria's adoption of IFRS in 2012, evidence indicates that application of IAS 37 remains uneven. Recent studies (Osamwonyi & Ohonba, 2020; Adeyemo & Adeyemo, 2021) highlight persistent challenges such as inconsistent recognition of decommissioning liabilities, judgmental bias in contingent liability estimates, and generic "boilerplate" disclosures that limit decision-usefulness. Empirical research also links weak disclosure practices in the extractive sector to diminish investor confidence, reputational risks, and higher cost of capital (World Bank, 2020; Okafor & Ogiedu, 2021).

While prior literature has broadly examined the outcomes of IFRS adoption in Nigeria (Olayinka & Adebayo, 2022; Abdul Baki & Haniffa, 2020), relatively little attention has been paid to the specific role of IAS 37 in enhancing financial reporting quality in the oil and gas sector. Most existing works remain descriptive or normative, offering compliance checklists without empirically testing the relationship between IAS 37 application and reporting quality indicators.

This study fills that gap by providing panel data evidence from listed Nigerian oil and gas companies, focusing on how IAS 37 compliance and disclosure practices influence financial reporting quality. In doing so, the study contributes to IFRS literature by offering standard-specific insights, informs regulators on areas requiring stronger enforcement, and highlights the importance of high-quality disclosure for sustaining investor confidence in Nigeria's extractive industry.

The Nigerian oil and gas sector is highly significant—while it contributes just around 9% to GDP, it remains the primary source of government revenue, accounting for approximately 80% of government earnings Wikipedia+1. In such a critical context, weaknesses in the application of IAS 37 can severely undermine the reliability and utility of financial reporting. Yet, practice diverges from the standard. Key issues include: (i) Under-provisioning of environmental and decommissioning liabilities—firms often defer recognizing probable future outflows, misrepresenting financial risk. (ii) Delayed recognition of obligations, contrary to IAS 37's criteria, which requires recognition once reliable estimates are possible—not just when obligations become enforceable. (iii) Boilerplate disclosures—instead of detailed, entity-specific narratives, many firms rely on generic statements that fail to inform stakeholders about the nature, timing, and uncertainty of provisions. (iv) Excessive managerial discretion—given weak governance, there's potential for manipulation of estimates to influence earnings or obscure actual liabilities. (v) Insufficient regulatory enforcement—oversight bodies like the Financial Reporting Council of Nigeria lack capacity, leading to inconsistent compliance across firms.

Moreover, much of the literature on IFRS adoption in Nigeria remains broad. While several studies address general compliance and disclosure challenges (e.g., Osamwonyi & Ohonba, 2020; Adeyemo & Adeyemo, 2021), few have empirically assessed the specific impact of IAS 37 compliance on financial reporting quality in the oil and gas sector.

The main objective of this study is to examine the impact of IAS 37 implementation on the financial reporting quality of oil and gas companies listed on the Nigerian Stock Exchange. Specifically, the study seeks to: (i) Assess the extent of compliance and recognition with IAS 37 among listed Nigerian oil and gas companies; and (ii) Evaluate the effect of IAS 37 disclosure quality on the transparency and reliability of financial statements within the sector. To address these objectives, two research questions have been raised: (i) To what extent does Nigerian listed oil and gas companies comply with the disclosure and recognition requirements of IAS 37? (ii) How does the quality of IAS 37 disclosures affect the transparency and reliability of financial reporting in Nigeria's oil and gas sector? These have been translated into the following hypotheses:

H1: *There is no statistically significant level of compliance and recognition with IAS 37 among listed Nigerian oil and gas companies.*

H2: *IAS 37 disclosure quality has no significant effect on the transparency and reliability of financial statements of listed Nigerian oil and gas companies.*

2. Literature Review

Financial Reporting Quality in Nigeria

Financial reporting quality (FRQ) reflects the degree to which financial statements convey useful, reliable, and decision-relevant information to stakeholders. According to the IASB Conceptual Framework (2018), high-quality reporting is characterized by relevance (predictive and confirmatory value), faithful representation (completeness, neutrality, and freedom from error), and enhancing characteristics (comparability, verifiability, timeliness, and understandability).

Dechow et al. (2010) argue that reporting quality is not simply a function of accounting standards, but of their implementation and enforcement within a specific institutional environment. In jurisdictions like Nigeria—where enforcement is weak and managerial discretion high—the effectiveness of international standards may be undermined (Adeyemo & Adeyemo, 2021).

In the oil and gas sector, FRQ is especially sensitive to how firms estimate and disclose obligations under IAS 37. Weak compliance can distort liability measurements, obscure environmental risks, and mislead investors regarding sustainability of earnings. Thus, evaluating IAS 37 compliance provides a focused means of assessing FRQ within this sector (Uwuigbe et al., 2021).

IFRS and Financial Reporting Quality in Nigeria

Nigeria's adoption of International Financial Reporting Standards (IFRS) in 2012 was expected to enhance transparency and comparability of financial reports. Several studies support this expectation. Adeyemo and Adeyemo (2021) find improved clarity of disclosures among listed firms, while Osamwonyi and Ohonba (2019) report enhanced comparability and investor confidence.

However, other scholars challenge these claims. Abdul Baki and Haniffa (2020) provide evidence of continued earnings management and creative accounting despite IFRS adoption. Similarly, Okafor and Ogiedu (2021) argue that disclosure improvements have been largely superficial, with boilerplate narratives rather than detailed firm-specific information. These inconsistencies suggest that IFRS by itself does not guarantee high FRQ; rather, institutional enforcement and preparer competence are decisive. This mixed evidence motivates a more standard-specific investigation—in this case, IAS 37 compliance—instead of broad IFRS studies.

IAS 37 Disclosures in the oil and gas industry

IAS 37, which deals with provisions, contingent liabilities, and contingent assets, is of particular relevance to companies operating in the extractive industry, such as oil and gas. This is because oil exploration and production activities inherently involve significant environmental and decommissioning obligations. The standard requires companies to recognize provisions for present obligations and disclose information about contingent liabilities arising from their operations (IASB, 2010).

Gray (2020) highlights that IAS 37 aims to ensure a more faithful representation of a company's financial position by compelling transparent recognition of future obligations, especially environmental rehabilitation costs. For oil and gas firms, this includes dismantling, removal, and site restoration expenses, which are often material. Transparency in these disclosures enhances stakeholders' ability to assess the long-term sustainability and risk exposure of such companies. Failure to comply with IAS 37 can lead to material misstatements and undermine the credibility of financial statements.

Theoretical Framework

Financial reporting quality is fundamentally grounded in the qualitative characteristics outlined in the conceptual framework for financial reporting: relevance, faithful representation, comparability, verifiability, timeliness, and understandability (IASB, 2018). Among these, comparability, transparency, and neutrality are particularly critical when addressing complex liabilities, as is common in the oil and gas sector.

IAS 37 supports these qualities by providing standardized guidance on the recognition and measurement of provisions, contingent liabilities, and contingent assets. The standard requires entities to disclose sufficient detail about uncertainties and expected outflows, thereby reducing information asymmetry between corporate management and external stakeholders.

Agency Theory: Agency theory, as posited by Jensen and Meckling (1976), explains the inherent conflict between company management (agents) and shareholders (principals). In the absence of adequate disclosure requirements, managers may underreport liabilities to inflate short-term earnings and meet performance targets. IAS 37 mitigates this agency problem by mandating disclosures that make it more difficult for managers to obscure the firm's true financial position, thus promoting accountability and protecting shareholder interests.

Agency theory (Jensen & Meckling, 1976) explains conflicts between managers (agents) and shareholders (principals). Managers may understate liabilities or delay recognition to inflate short-term performance. IAS 37, by requiring timely recognition and transparent disclosure of provisions, constrains such opportunistic behavior. This predicts a positive association between IAS 37 compliance and FRQ. Non-compliance enables earnings management, whereas compliance improves faithful representation.

Signaling Theory: Signaling theory (Spence, 1973) suggests that companies can convey private information to external parties through voluntary or mandatory disclosures. High-quality disclosure of provisions and contingent liabilities under IAS 37 can act as a positive signal to investors, indicating prudent financial management and a commitment to transparency. This, in turn, may reduce perceived investment risk and the firm's cost of capital.

In summary, the theoretical framework suggests that adherence to IAS 37 enhances financial reporting quality by minimizing information asymmetry (Agency Theory) and improving market perceptions through credible signaling (Signaling Theory). Where disclosure is inadequate or inconsistent, financial statements may fail to faithfully represent economic realities, eroding stakeholder trust and reducing the utility of financial reports for decision-making. Signaling theory (Spence, 1973) posits that firms disclose information to reduce information asymmetry and signal credibility to investors. Compliance with IAS 37 sends a positive signal of prudence and transparency, thereby improving investor trust and potentially reducing cost of capital (Okafor & Ogiedu, 2021). High-quality disclosures (signal) enhance FRQ, while factors such as audit quality or firm size may strengthen the credibility of the signal.

Empirical Evidence on IAS 37 and Nigerian Oil Firms

Empirical studies focusing on Nigeria's oil and gas industry have provided growing evidence that compliance with IAS 37 significantly influences the quality of financial reporting, particularly in relation to transparency, earnings quality, and investor confidence. Given the nature of oil and gas operations—often involving high environmental risk, complex legal frameworks, and long-term decommissioning liabilities—the accurate recognition and disclosure of provisions and contingencies are vital.

A longitudinal study by Adebayo and Ologunwa (2020), which examined the financial reports of five major Nigerian oil and gas firms between 2012 and 2018, found a significant positive relationship between the recognition of environmental provisions and earnings persistence. Earnings persistence—a key indicator of financial reporting quality—reflects the extent to which current earnings predict future earnings. The study concluded that firms that consistently recognized environmental liabilities in line with IAS 37 demonstrated reduced volatility in earnings, indicating more conservative and stable financial reporting. This finding aligns with the broader observation that proper application of IAS 37 minimizes the use of discretionary accruals, thereby limiting managerial manipulation of reported earnings. Discretionary accruals are often used as a proxy for earnings management; thus, lower levels are indicative of more transparent and credible financial statements (Abdul Baki & Haniffa, 2020).

Furthermore, panel regression analysis conducted by Uwuigbe et al. (2021) on a dataset of 10 listed oil and gas firms between 2013 and 2020 revealed that high levels of disclosure compliance with IAS 37 were associated with a significant reduction in income smoothing. Income smoothing, often achieved through provisions and reserve manipulations, distorts the true performance of a company. Firms that adhered to the disclosure requirements under IAS 37, particularly in the notes to the accounts—demonstrated greater alignment between reported earnings and operating cash flows, enhancing the faithful representation of financial performance. A related study by Adeyemo and Adeyemo (2021) also highlighted that firms with robust IAS 37 disclosure practices experienced lower audit adjustments during statutory audits, suggesting that higher compliance improved the verifiability and reliability of financial statements. Their research emphasized that consistent and detailed disclosures about the nature, timing, and uncertainty of liabilities reduced the information gap between management and external stakeholders.

Another dimension of the empirical literature emphasizes the market-level effects of IAS 37 compliance. According to Okafor and Ogiedu (2021), firms with more transparent provision-related disclosures under IAS 37 enjoyed stronger investor trust, as evidenced by improved stock price stability and reduced cost of capital. This suggests that beyond accounting integrity, IAS 37 compliance carries significant implications for capital market efficiency and investment decision making.

Despite these positive correlations, challenges remain. Osamwonyi and Ohonba (2019) found that while some firms disclosed provisions and contingencies in line with IAS 37, the qualitative depth and consistency of these disclosures varied significantly across companies. Many firms relied on boilerplate language, failing to provide meaningful details on how provisions were estimated, the assumptions involved, or the likelihood of contingent outflows. This undermines the purpose of the standard and points to the need for stronger regulatory oversight and enforcement by bodies such as the Financial Reporting Council of Nigeria (FRCN). Earnings Quality & Persistence – Adebayo and Ologunwa (2020) find that recognition of decommissioning provisions improves earnings persistence, suggesting that compliance reduces volatility and enhances conservative reporting. Limitation: Their sample of five firms restricts generalizability.

Earnings Management & Income Smoothing – Uwuigbe et al. (2021) demonstrate that higher IAS 37 disclosure compliance reduces income smoothing, indicating a reduction in discretionary accruals. Strength: Use of panel regression enhances robustness; Limitation: Reliance on secondary disclosure checklists without triangulation from auditors weakens validity. Audit Reliability – Adeyemo and

Adeyemo (2021) report fewer audit adjustments among firms with stronger IAS 37 disclosures, implying improved verifiability. Limitation: Focuses on audit adjustments but not investor perceptions.

Market Outcomes – Okafor and Ogiedu (2021) show that transparent IAS 37 disclosures correlate with more stable stock prices and reduced cost of capital. Limitation: Causality is difficult to establish given market-level factors. Disclosure Depth – Osamwonyi and Ohonba (2019) highlight the prevalence of generic, boilerplate disclosures, limiting decision usefulness. This underscores the need for stronger enforcement.

Collectively, these studies reinforce the argument that IAS 37 is more than a compliance requirement — it is a mechanism for enhancing the quality and credibility of financial reporting, particularly in complex and high-risk industries like oil and gas. Compliance with its recognition and disclosure provisions leads to more accurate liability measurement, greater comparability, reduced information asymmetry, and enhanced decision-usefulness of financial reports for investors, regulators, and auditors.

Figure 1: Conceptual Model
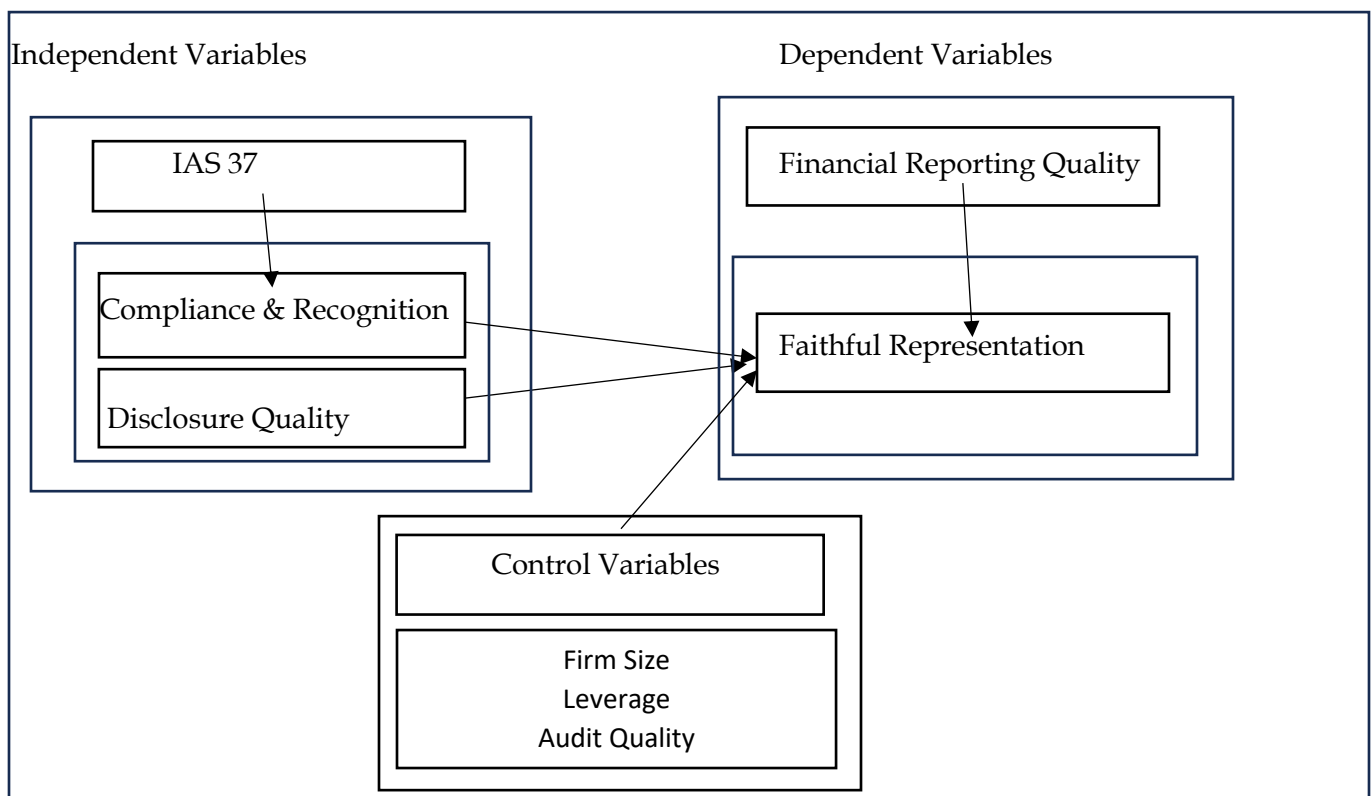
Sources: Researcher (2025).

3. Methodology
Population and Sample
The population of the study consists of all oil and gas companies listed on the Nigerian Exchange Group (NGX). These firms were chosen because of their significant exposure to environmental liabilities, legal contingencies, and decommissioning obligations — issues that fall directly under the scope of IAS 37: Provisions, Contingent Liabilities, and Contingent Assets. The sample was drawn purposively to include

only firms that consistently published complete financial reports between 2020 and 2023. This ensured data availability for both the content analysis and the panel regression. The five-year period was selected to capture reporting practices across time and to allow for a robust comparison of disclosure quality and compliance patterns.

Research Design

The study employs a mixed-methods research design, combining a descriptive qualitative approach with quantitative panel regression analysis. First, a qualitative content analysis of secondary data from published annual reports was undertaken to evaluate the nature and quality of IAS 37-related disclosures. This stage emphasized how disclosure practices contribute to overall financial reporting quality. The qualitative results were then operationalized into indices — IAS 37 compliance, disclosure quality, and the Faithful Representation Index (FRQ). In the second stage, the study employed quantitative panel regression to statistically assess the impact of IAS 37 compliance and disclosure quality on FRQ across listed Nigerian oil and gas firms between 2020 and 2023. This dual approach allowed for both an in-depth descriptive understanding of disclosure practices and an empirical examination of their influence on reporting quality.

Data Sources and Measures

The study relied exclusively on secondary data obtained from the audited annual reports of listed oil and gas firms in Nigeria for the period 2020–2023. These reports were accessed through the official Nigerian Exchange (NGX) portal, company websites, and financial reporting databases to ensure data completeness and consistency across firms. A content analysis approach was employed to systematically review and code disclosures relating to IAS 37. Particular attention was given to three key areas: Environmental provisions and restoration obligations, Contingent liabilities and legal claims, and Changes in provisions and justifications provided. To ensure objectivity, a structured disclosure checklist was developed based on IAS 37 requirements. Each firm's disclosures were scored for completeness, clarity, and frequency, thereby producing standardized indices of IAS 37 compliance, disclosure quality, and financial reporting quality (proxied by the Faithful Representation Index). These coded measures were subsequently used both for descriptive analysis of disclosure practices and as inputs for the panel regression model assessing the determinants of financial reporting quality.

Model Specification

To examine the relationship between IAS 37 compliance and the financial reporting quality of listed oil and gas companies in Nigeria, the following model is specified:

$$FRQ_{it} = \beta_0 + \beta_1 IAS37\_C_{it} + \beta_2 IAS37\_D_{it} + \beta_3 FSIZE_{it} + \beta_4 LEV_{it} + \beta_5 AUDIT_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(1)}$$

Where:

FRQ_{it}: Financial reporting quality of firm i in year t, proxied by faithful representation.

$IAS37\_C_{it}$: Compliance and recognition score under IAS 37.

$IAS37\_D_{it}$: Quality of disclosure under IAS 37.

$FSIZE_{it}$: Firm size (log of total assets).

LEV_{it}: Leverage ratio.

$AUDIT_{it}$: Audit firm type (Big 4 = 1; Otherwise = 0).

ε_{it}: Error term.

Table 1: Measurement of Variables

Variable	Proxy / Measurement	Type	Description
FRQ (Financial Reporting Quality)	Faithful Representation Index (FRI)	Dependent	Composite index capturing completeness, neutrality, and freedom from error based on disclosure content scores.
IAS37_C (IAS 37 Compliance)	Compliance & Recognition Score (CRS)	Independent	Score based on adherence to IAS 37 recognition criteria: present obligation, probability of outflow, and reliable estimation.
IAS37_D (Disclosure Quality)	Disclosure Quality Score (DQS)	Independent	Score based on the depth, clarity, and specificity of disclosures in the notes to the accounts, using a structured IAS 37 checklist.
Firm Size (FSIZE)	Log of Total Assets	Control	Captures firm capacity and incentive to disclose accurately.
Leverage (LEV)	Total Debt / Total Assets	Control	Measures financial risk and may influence disclosure incentives.
Audit Firm (AUDIT)	Big 4 = 1; Otherwise = 0	Control	Proxy for audit quality and external governance.

Robustness and Diagnostic Tests

To ensure the validity and reliability of the regression results, a series of diagnostic and robustness checks were conducted. Multicollinearity: Variance Inflation Factor (VIF) values were examined to detect potential multicollinearity among regressors. All values fell below the threshold of 10, indicating acceptable levels. Heteroskedasticity: Both the Breusch–Pagan and White tests were performed to check for heteroskedasticity. Where evidence of heteroskedasticity was found, robust (heteroskedasticity-consistent) standard errors were applied. Autocorrelation: The Wooldridge test for autocorrelation in panel data was employed. In cases where serial correlation was detected, Driscoll–Kraay standard errors were used to obtain robust coefficient estimates. Stationarity: Unit root tests, specifically the Levin–Lin–Chu (LLC) and Im–Pesaran–Shin (IPS) tests, were conducted to establish the time-series properties of the panel data. This ensured that the variables were suitable for regression analysis. Model Specification: The Ramsey RESET test was applied to confirm that the functional form of the model was correctly specified. Endogeneity: The Hausman specification test was used to determine the appropriate estimator between fixed effects and random effects. In addition, lagged regressors were introduced where necessary to mitigate potential endogeneity concerns. Collectively, these diagnostic procedures strengthen the credibility of the regression results by ensuring that the model is well-specified, free from major econometric violations, and robust to alternative estimations. This comprehensive diagnostic framework minimizes bias, enhances statistical reliability, and increases confidence in the study's empirical findings and conclusions.

4. Results and Discussion

Table 2: Interpretation of Each Variable

Variable	Coefficient β\betaβ	Interpretation
IAS37_C	$\beta_1 > 0$ \beta_1 > 0 $\beta_1 > 0$?	A higher compliance/recognition score → increases FRQ. Shows firms following IAS 37 criteria (like probability of outflow, obligation) are more faithfully representing financial data.
IAS37_D	$\beta_2 > 0$ \beta_2 > 0 $\beta_2 > 0$?	Better quality disclosures (depth, clarity) → enhance FRQ. Suggests transparency in note disclosures helps users trust financial reports more.
FSIZE	$\beta_3 > 0$ \beta_3 > 0 $\beta_3 > 0$?	Larger firms tend to have better FRQ, likely due to better systems, reputational concerns, and resources.
LEV	$\beta_4 < 0$ \beta_4 < 0 $\beta_4 < 0$?	More leveraged firms may reduce FRQ, possibly due to incentives to withhold bad news or manipulate earnings.
AUDIT	$\beta_5 > 0$ \beta_5 > 0 $\beta_5 > 0$?	Being audited by a Big 4 firm is associated with higher FRQ — external governance and audit quality improve disclosure integrity.

Model Overview
Dependent Variable: FRQ (Faithful Representation — proxy for Financial Reporting Quality)
Main Independent Variables:
IAS37_C: Compliance & recognition under IAS 37
IAS37_D: Disclosure quality under IAS 37
Control Variables:
FSIZE: Firm size (log total assets)
LEV: Leverage
AUDIT: Big 4 audit dummy (1 = Big 4)

Table 3: Takeaways (Fixed Effects Model)

Variable	Coefficient	t-stat	Significance	Interpretation
IAS37_C	0.308	3.67	*** ($p < .01$)	Positive effect on FRQ
IAS37_D	0.44	5.6	*** ($p < .01$)	Strong positive effect
FSIZE	0.279	9.83	*** ($p < .01$)	Larger firms → higher FRQ
LEV	-0.211	-2.6	** ($p < .05$)	More debt → lower FRQ
AUDIT	0.098	3.53	*** ($p < .01$)	Big 4 audit → higher FRQ

R² (Within): 0.786 — model explains ~79% of within-firm variation in FRQ.

Panel Regression Results – IAS 37 Compliance and Financial Reporting Quality

Table 4: Panel Regression Results – Impact of IAS 37 Compliance on Financial Reporting Quality

Variable	Coefficient	t-Statistic
IAS37_C	0.308***	(3.67)
IAS37_D	0.440***	(5.60)
FSIZE	0.279***	(9.83)
LEV	-0.211**	(-2.60)
AUDIT	0.098***	(3.53)

Note. ***$p < .01$, **$p < .05$.

Fixed Effects model used. Entity effects included.

Dependent variable: Financial Reporting Quality (FRQ).

The fixed effects panel regression reveals a statistically significant and positive relationship between IAS 37 compliance (β = 0.308, $p < .01$) and disclosure quality (β = 0.440, $p < .01$) with financial reporting quality. Firm size (β = 0.279, $p < .01$) and Big 4 audit affiliation (β = 0.098, $p < .01$) also positively influence reporting quality. Leverage, on the other hand, has a significant negative effect (β = -0.211, $p < .05$). These findings suggest that enhanced compliance with IAS 37 and better disclosure practices improve the faithful representation of financial statements among Nigerian oil and gas firms.

The study examined the effect of compliance with IAS 37 on the financial reporting quality (FRQ) of listed oil and gas companies in Nigeria using a fixed effects panel regression model. Financial reporting quality was proxied by the Faithful Representation Index (FRI), capturing completeness, neutrality, and freedom from error. The fixed effects model revealed that both IAS 37 compliance (IAS37_C) and disclosure quality (IAS37_D) have a statistically significant and positive relationship with FRQ. Firm size and audit quality (Big 4) also positively influenced FRQ, while leverage had a negative effect.

Table 5: Key Findings

Variable	Coefficient	t-statistic	Significance	Interpretation
IAS37_C	0.308	3.67	*** ($p < .01$)	Higher compliance improves FRQ
IAS37_D	0.44	5.6	*** ($p < .01$)	Better disclosures enhance FRQ
FSIZE	0.279	9.83	*** ($p < .01$)	Larger firms show higher FRQ
LEV	-0.211	-2.6	** ($p < .05$)	More debt reduces FRQ
AUDIT	0.098	3.53	*** ($p < .01$)	Big 4 auditors linked to better FRQ

Discussion

The results largely corroborate international literature (Barth et al., 2008; Healy & Palepu, 2001), yet they also reveal context-specific insights for Nigerian oil and gas firms. First, disclosure quality proves more critical than compliance alone. The stronger coefficient for IAS37_D relative to IAS37_C indicates that the clarity, completeness, and transparency of disclosures exert a greater influence on FRQ than mere technical compliance with IAS 37 requirements. This finding suggests that stakeholders in Nigeria place greater value on informative disclosure narratives, which enhance faithful representation, than on mechanical compliance. Few Nigerian studies have distinguished between compliance and disclosure quality, making this a novel contribution.

Second, leverage effects deviate from some international evidence. While prior studies in developed markets often report negligible or mixed effects of leverage on reporting quality, this study finds a

consistent negative relationship. This divergence implies that in Nigeria, highly leveraged firms may engage in selective disclosure or under-reporting of obligations to maintain favorable debt covenant positions. This supports the agency theory perspective, where information asymmetry and opportunistic behavior are heightened in weaker institutional settings.

Third, audit quality demonstrates a stronger role than anticipated. Contrary to earlier findings that external audits are less effective in emerging markets due to regulatory gaps, the significant positive effect of Big 4 affiliation suggests that international audit firms exert meaningful discipline on Nigerian oil and gas companies. This finding highlights the moderating influence of global audit practices in environments with relatively weak enforcement, strengthening the argument for external governance mechanisms as a complement to local regulation. The results highlight that while Nigerian oil and gas companies align with global reporting practices, institutional pressures—particularly debt constraints and reliance on international auditors—shape how IAS 37 compliance translates into financial reporting quality.

Implications

These findings underscore the importance of regulatory enforcement and audit quality in enhancing financial reporting among Nigerian oil and gas firms. Strengthening IAS 37 implementation and encouraging better disclosures can improve stakeholders' confidence in financial statements. Furthermore, the role of audit quality highlights the need for regulatory encouragement of Big 4 or equivalent audit standards in the sector.

5. Conclusion and Recommendations

The study investigated the impact of IAS 37 compliance—captured through recognition compliance (IAS37_C) and disclosure quality (IAS37_D)—on the financial reporting quality (FRQ) of listed oil and gas firms in Nigeria from 2020 to 2023. Using panel regression with firm-level controls, the results reveal that both recognition compliance and disclosure quality significantly improve FRQ.

Firms that accurately recognize provisions and provide transparent disclosures in line with IAS 37 produce financial statements that are more complete, neutral, and reliable. Control variables further highlight that larger firms and those audited by Big 4 auditors tend to exhibit higher FRQ, whereas high leverage negatively impacts FRQ—suggesting debt pressures may encourage concealment of obligations.

Overall, the findings confirm that accounting standard compliance, firm characteristics, and audit oversight collectively shape the transparency and credibility of financial reporting in Nigeria's oil and gas sector.

Based on the findings of this study, the following recommendations are offered:

i. The Financial Reporting Council of Nigeria (FRCN) should implement annual compliance audits of listed firms, focusing on IAS 37 disclosures. Findings should be published in compliance scorecards to encourage competition among firms. Non-compliant firms should face graduated sanctions (warnings, fines, or investor alerts).

ii. Given the unique decommissioning and environmental obligations in oil and gas, FRCN could issue industry-specific guidance notes on IAS 37 application, including model templates for disclosure of provisions, uncertainties, and contingent liabilities.

iii. The Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN) should collaborate with regulators to provide mandatory Continuing Professional Development (CPD) courses on IAS 37, focusing on complex estimation techniques.

iv. Firms should adopt a disclosure checklist aligned with IAS 37 to ensure completeness and comparability across firms. External auditors should be required to explicitly opine on compliance with disclosure checklists as part of the audit process.

v. The Financial Reporting Council and the Nigerian Stock Exchange should create a public audit quality review program, ranking firms based on the independence and quality of their external auditors. Firms engaging high-quality auditors (e.g., Big 4) could be given listing privileges such as faster approvals of corporate filings.

vi. Boards of directors should institute leverage thresholds and require additional disclosure when debt-to-equity ratios exceed defined levels. Independent audit committees should play a proactive role in monitoring provisions that are sensitive to creditor pressures.

This study is limited by its sample size (restricted to oil and gas firms with consistent disclosures between (2020–2023), which may constrain generalizability. The reliance on disclosure indices, while robust, may introduce subjectivity in measurement. Furthermore, the short time frame restricts long-term insights into compliance dynamics.

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