

# Epistemic Integrity of Financial Reporting: A Forensic–Institutional Analysis of Earnings Manipulation, Regulatory Enforcement, and Disclosure Credibility in Nigeria

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Article History	Abstract
<b>Original Research Article</b>	
<b>Received: 02-03-2026</b>	<i>This research presents a forensic-institutional investigation of financial reporting in Nigeria, proposing epistemic integrity as a fundamental requirement for the legitimacy of disclosures.</i>
<b>Accepted: 12-04-2026</b>	<i>The study transcends mere technical adherence to International Financial Reporting Standards by conceptualising financial statements as institutionalised knowledge assertions, the veracity of which hinges on enforcement credibility, governance alignment, and regulatory independence.</i>
<b>Published: 28-04-2026</b>	<i>The study elucidates the emergence of earnings manipulation through the interplay of managerial incentives, audit limitations, ownership concentration, and political economy dynamics, integrating agency theory, institutional theory, signalling theory, and regulatory capture perspectives. It contends that formal regulatory complexity, supported by organisations like the Securities and Exchange Commission and the Financial Reporting Council of Nigeria, does not inherently provide substantive openness when enforcement capacity and insulation are inadequate. The study redefines forensic accounting as a proactive structural deterrent integrated into regular monitoring instead of a reactive investigative instrument. It suggests a forensic-institutional framework focused on credible punishments, audit accountability, incentive realignment, and protection for whistleblowers. This study reframes disclosure credibility as a public epistemic good, contributing to theoretical discussions on financial reporting integrity in emerging markets and delineating systemic reforms required to enhance market trust and capital allocation efficiency.</i>
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<p><b>Citation:</b> Nnordee Bariagara King David, Nnabude, Christian Uche, &amp; Anuforo Cajetan Chima. (2026). Epistemic integrity of financial reporting: A forensic–institutional analysis of earnings manipulation, regulatory enforcement, and disclosure credibility in Nigeria. <i>UKR Journal of Economics, Business and Management (UKRJEBM)</i>, 2(4), 397-406.</p>	<p><b>Keywords:</b> <i>Epistemic Integrity, Forensic–Institutional Analysis, Earnings Manipulation, Regulatory Enforcement, Disclosure Credibility.</i></p>

## Introduction

Financial reporting involves technical measurement, classification, and disclosure. Based on epistemology. Corporate financial statements are economic assertions, not data. The public, regulators, creditors, and investors depend on corporate performance and financial disclosures. The systematic manipulation of these representations is epistemic failure, not accounting fraud. Such errors are common in emerging economies due to institutional instability.

Nigeria provides a unique opportunity to assess financial reporting epistemic integrity. Regulators improved transparency, corporate governance, and investor protection over time. Disclosures are legitimised by IFRS,

corporate governance norms, and SEC and FRC oversight in Nigeria. However, financial misstatements, enforcement issues, and corporate governance issues show that formal compliance does not guarantee epistemic reliability.

Technical accounting standards, enforcement measures, regulatory independence, and corporate governance incentives make Nigerian financial reporting an institutionalised knowledge system (Obasan & Kuola, 2025). How do institutional conditions influence Nigerian financial reporting epistemic integrity, notably earnings manipulation and regulatory enforcement?

The study examines forensic institutes. Previously used to detect fraud and financial disparities, forensic accounting is now an institutional epistemic corrective tool (Afriyie et al., 2023). Earnings management is a rationally responding to incentive distortions, legal problems, and enforcement limits, not opportunistic. The trustworthiness of disclosure is now structurally clear.

Three variables make this question relevant. Accounting theory does not affect epistemic integrity (Petherbridge, 2022). If audit independence is compromised or enforcement is inconsistent, financial statements may meet technical reporting criteria but not give reliable information (Sawaya et al., 2025). Epistemic integrity is used to reframe disclosure credibility as a public asset rather than a private responsibility. When political and economic elites run regulatory agencies, enforcement may be selective or symbolic (Brown, 2025). Deterrence decreases and profit manipulation is allowed without punishment.

The research analyses how forensic processes, whistleblowing frameworks, and audit supervision structures improve policy discourse epistemic reliability (Hossain, 2025). Transparency talks in establishing financial systems are examined in Nigeria.

Traditional earnings management literature distinguishes accrual-based manipulation from actual activity manipulation. This distinction is analytically useful, but most scholarly work views manipulation as a firm-level event impacted by management opportunism, compensation incentives, or capital market dynamics. The institutional ecology of these behaviours is poorly studied. In emerging economies, weak enforcement, low lawsuit risk, concentrated ownership, and political favouritism may reduce misreporting costs (Khalil et al., 2022). These make wage manipulation structural, not episodic.

Nigeria's complex political economy affects regulation. Political influence, budget constraints, and competing goals restrict regulatory agencies. Monitoring methods subject to elite manipulation undermine enforcement credibility (Jubaer, 2025). Despite legal expansion, transparency mistrust persists. This dilemma inspired this conceptual study.

### **Conceptual Foundations**

Epistemic integrity is the trustworthiness, veracity, and justificatory soundness of institutional knowledge claims (Kahl, 2025). In financial reporting, it is how well financial statements reflect economic reality and can be trusted by users for decision-making. Beyond technical accounting compliance, this idea questions reporting system knowledge quality.

Quality criteria including faithful representation, relevance, comparability, and verifiability are valued in traditional accounting (Bellari, 2024). However, these traits require institutional functioning. Epistemic integrity emphasises the systemic conditions that enable certain attributes to manifest. Financial statements are socially produced products rooted in governance, audit, and regulatory regimes.

Epistemic integrity in emerging economies can be damaged by deliberate fraud, structural distortions, auditor dependency, concentrated ownership, and insufficient litigation risk (Akinsola, 2025). Epistemic failure can be caused by systemic misalignment, not individual misbehaviour. When verification, sanction, and professional responsibility are weak, financial reporting becomes epistemically flimsy (Maroun & Cerbone, 2026).

Consider financial reporting an epistemic system to emphasise its public nature. Disclosures help investors, creditors, employees, and policymakers allocate resources. Deteriorating reporting integrity increases knowledge asymmetry, capital misallocation, and market distrust. The weakening of epistemic integrity affects macroeconomics.

### ***Earnings Manipulation and Managerial Discretion***

Earnings manipulation, often discussed under the broader category of earnings management, refers to the intentional use of accounting discretion to alter reported financial performance in ways that may mislead stakeholders or influence contractual outcomes (Adejumo & Ogburie, 2025). The literature distinguishes between two principal modalities:

1. Accrual-based manipulation, involving adjustments to accounting estimates and provisions within the flexibility permitted by standards.
2. Real activities manipulation, involving operational decisions such as altering production schedules or discretionary expenditures to achieve desired accounting outcomes.
3. Some studies distinguish between “opportunistic” and “informative” profit management, but the line is often blurred. Epistemically, the main question is whether administrative discretion compromises reported information.

Understanding agency theory is fundamental. As agents, managers have informational advantages over shareholders and can use accounting flexibility to maximise personal utility through performance-linked compensation, reputational concerns, or regulatory evasion. However, agency explanations are insufficient. They assume monitoring and enforcement systems to limit opportunism.

Weak mechanisms allow discretion to exceed its intended function.

High concentration and insider control characterise Nigerian ownership systems (Acho et al., 2024). Minority shareholders may have trouble monitoring. Inconsistent regulatory enforcement lowers manipulation costs (Wang et al., 2022). So earnings manipulation becomes logical in a tolerant institutional setting.

Importantly, manipulation can occur without falsification (Fischer, 2022). It may exploit revenue recognition, asset valuation, or impairment assessment grey areas within standards. Identifying strategic distortion from reasonable professional judgement is epistemological. The ambiguity emphasises the necessity for reliable audit oversight and enforcement.

### ***Forensic Accounting as Epistemic Corrective***

Financial abnormalities are typically investigated in forensic accounting, especially in litigation and fraud cases (Afriyie et al., 2023). Its conceptual scope can be expanded. This work proposes forensic accounting as an institutional tool to restore epistemic integrity once routine reporting fails (Akininyi et al., 2025).

Detective, sceptical, and retrospective, forensic analysis differs from standard auditing, which follows set procedures and cycles. It examines numerical results, conduct, governance, and incentives. To find hidden distortions, forensic procedures trace inconsistencies, reconstruct transaction processes, and examine documented evidence (Kovalenko et al., 2025).

Enforcement credibility determines forensic systems' institutional efficacy (Ezebuilo & Nwankwo, 2025). Investigative findings must result in punishment, reputational damage, or structural change to deter. Forensic efforts may fail if enforcement results are uncertain or politically manipulated.

Forensic practices in Nigeria have grown due to high-profile corporate governance issues and regulatory interventions (ENEANYA & AUDU, 2025). Forensic accounting's institutionalisation in regulatory architecture is patchy. The difficulty is integrating forensic capacity into normal oversight, not just crisis reaction. Forensic accounting is part of an epistemic infrastructure that includes auditors, regulators, professional bodies, and courts (Thyagaraju, 2025). It enforces sincerity and accountability as well as detects misbehaviour.

### ***Disclosure Credibility and Information Asymmetry***

Disclosure credibility is stakeholders' trust in reported information (Mostafaei et al., 2025). It depends on corporate governance, audit quality, regulatory supervision, and institutional trust. Corporate managers have superior

knowledge of internal operations, creating information asymmetry. Financial reporting reduces asymmetry. Despite formal transparency, asymmetry remains when disclosures are inaccurate.

So credibility is relational. Disclosures, auditor independence, enforcement consistency, and regulatory institution history all affect it. Even with rigorous disclosure standards, market participants lose trust if they fear misreporting will be poorly punished.

Enforcement scandals in Nigeria have raised issues regarding oversight agencies' impartiality and efficacy (NNAJIOFOR & NNAJIOFOR, 2025). Disclosure credibility may suffer market-wide reputational spillovers from selective or politically motivated regulatory measures.

Thus, institutional coherence determines disclosure credibility. Standards, audits, investigations, and punishments must match. Epistemic integrity is compromised by environmental fragmentation or politicisation (Farah, 2025).

### **Theoretical Framework**

A coherent theoretical framework is needed to explain financial reporting's structure and behaviour. This study examines earnings manipulation and disclosure credibility using a single integrative theory for conceptual clarity and analytical depth. Agency Theory helps explain incentive structures, information asymmetries, and monitoring issues that affect financial reporting, especially in emerging economies like Nigeria.

In 1976, Michael C. Jensen and William H. Meckling introduced Agency Theory, which highlights conflicts of interest between shareholders and managers when resource control is separated from ownership. Inefficient monitoring methods may lead managers with more internal information to act in their own self-interest rather than shareholders' best benefit. Management opportunism is enabled by knowledge asymmetry in Agency Theory. Asymmetry in financial reporting lets managers influence profitability with accounting policies and assumptions. Compensation, market expectations, and regulatory and contractual compliance may be manipulated. Thus, financial statements may no longer reflect the firm's economic position, jeopardising epistemic integrity.

Critically, Agency Theory addresses micro-level financial misreporting motivations, but its assumptions must be contextualised, especially in emerging economies like Nigeria. It implies effective governance and enforcement to limit management excesses. These systems may be poor, inconsistent, or compromised. Nigerian ownership concentration may reduce shareholder monitoring, especially for minority investors who cannot challenge

managerial decisions. Principal-agent control decreases and opportunism increases.

The structural limitations of external auditing, which Agency Theory considers critical monitoring, are clearly evident. Client-dependent audit firms may lose auditor independence. As earnings manipulation precautions, economic dependency can weaken audit reports and professional suspicion. As Agency Theory's monitoring role weakens, managerial discretion rises.

Another error in Agency Theory is underestimating institutional and regulatory constraints. The idea addresses cost monitoring and incentive alignment but not regulatory inefficiencies or political influence. Capacity, bureaucratic bottlenecks, and external factors may hinder Nigerian enforcement of penalties. Opportunistic financial reporting benefits self-interested managers because misreporting costs less.

Agency Theory explaining financial reporting distortion drivers is essential despite its limits. It shows how unbalanced incentives, inadequate supervision, and information asymmetry make financial reporting appear compliant yet unreliable. Governance, audit independence, and regulatory enforcement are also stressed to restore credibility.

### **Institutional Architecture of Financial Reporting and Regulatory Enforcement in Nigeria**

Over 20 years, Nigeria's financial reporting system has transformed. Global convergence and transparency were promoted by adopting IFRS over native accounting standards. Technology was used to reposition Nigerian capital markets in the global investment ecosystem.

Institutional enforcement capacity determines IFRS adoption effectiveness (Agana et al., 2025). Enforcement agencies interpret reporting standards. Nigerian financial reporting credibility must be judged in light of regulatory authorities, professional associations, legal actions, and market oversight (Obasan & Kuola, 2025).

PAOs, audit firms, capital market agencies, and statutory regulators are institutional. Their relationship impacts disclosure epistemic reliability. Network fragmentation affects enforcement coherence. SEC monitors public corporations, enforces disclosure standards, and preserves capital market integrity (Nwatu et al., 2024). Fines, trading suspensions, and restatements are SEC penalties.

The Financial Reporting Council of Nigeria (FRCN) oversees accounting and auditing standards, financial reporting compliance, and accounting professional conduct (Arinze et al., 2024). FRCN helps domesticate IFRS and ensures preparers and auditors comply.

Nigerian Exchange Group (NGX) exchange activities require quoted firms to list and report. Listing requirements improve transparency and compliance.

Professional organisations like ICAN set standards, discipline, and educate (Njoku, 2024). These entities influence accounting standards and audit ethics. In principle, this multi-tiered system should provide overlapping oversight to improve disclosure trustworthiness. This design thrives on cooperation, resource sufficiency, and institutional autonomy.

Political and resource constraints hinder regulatory enforcement. Enforcement requires professionals, investigation capability, legal expertise, and financial independence (Karimullah, 2024). When regulatory agencies depend on government financing or political appointees, autonomy may be questioned. Capacity constraints may delay investigations, limit forensics, or prevent violation follow-up. Protracted legal processes may reduce deterrence even when abnormalities are detected. Delayed or negotiated fines reduce misreporting expenses.

Overlapping mandates can also confuse. Coordination concerns may arise when SEC and FRCN functions overlap. Without procedural alignment, enforcement may be inconsistent. Institutional dispersion reduces epistemic coherence (Lumikari, 2023).

Internal governance impacts financial reporting integrity (Salehi et al., 2023). Many public Nigerian companies are dominated by shareholders or families. Concentration reduces agency conflicts between managers and controlling shareholders but increases minority shareholder conflicts (Purkayastha et al., 2022). Lack of board independence may hinder financial reporting monitoring. Reporting quality monitoring requires audit committees. Their efficacy requires independence, talent, and knowledge.

Executive pay may smooth short-term earnings. Accounting indicator pay without clawback or long-term performance review encourages manipulation (Remesal, 2025).

Thus, firm-level governance and regulatory architecture must be reviewed. External enforcement cannot substitute for poor internal monitoring. Credibility of financial reporting depends on audit quality. Nigeria's audit market includes global and local firms. Large audit firms may enhance technical skills but grow dependent on large corporate clients. Extended audit tenure or hefty non-audit fees cause independence difficulties. Rotation and independence lessen regulatory framework vulnerabilities. Such provisions must be enforced.

The FRCN regulates auditors' professionalism (Akinduko, 2023). Strength of oversight depends on inspection

systems, disciplinary transparency, and consequence credibility. A vague or inconsistent discipline weakens deterrence.

Politics affect regulatory bodies. Nigeria's political economy is characterised by elite networks, resource dependence, and reform cycles. Politically prominent corporations' enforcement efforts may place regulators under subtle pressure. Political influence perceptions can weaken public trust without direct action (Schlipphak, 2024). Institutions need functional and reputational autonomy. The perception and reality of impartial enforcement affect financial reporting reliability.

Entrenched interests may also oppose reform (Callais et al., 2022). Increased fines, whistleblowing protections, and forensic investigations may challenge power hierarchies. Thus, institutional change is political.

The Nigerian financial reporting system is strengthened by IFRS, monitoring bodies, professional regulation, and capital market supervision. These parts must match for epistemic integrity. Despite formal compliance, lack of coordination, enforcement, or autonomy may impair disclosure credibility.

### **Mechanisms of Earnings Manipulation in the Nigerian Institutional Context**

Not just earnings are manipulated. Governance, audit, regulation, and markets underpin it. We investigate epistemic distortion tactics after evaluating Nigeria's financial reporting institutional architecture. Instead of listing scandals, we will theorise underlying mechanisms that make manipulation sensible, practicable, and sometimes hard to detect. Accrual accounting requires managerial judgement in revenue recognition, impairment testing, asset valuation, depreciation predictions, and provisioning (Das et al., 2022). IFRS is principle-based and intellectually rigorous, but economic content is discretionary. This flexibility allows accurate portrayal and opportunistic adjustment.

Nigerian reporting induces discretionary bias in revenue recognition, fair value, and impairment evaluations. Firms may accelerate revenue recognition around reporting dates, defer loss recognition, or adjust forecasted credit loss model assumptions. These methods may improve performance within standards.

The epistemic dilemma occurs when discretion is purposefully employed to meet earnings targets, avoid regulatory scrutiny, or maintain investor faith (Mishra et al., 2025). In concentrated ownership, controlling shareholders may smooth income to stabilise market perception. Minority shareholders need stated figures because they lack inside information. Without audit scepticism and forensics,

accrual-based manipulation is hard to spot. Unequal audit monitoring or weak inspection regimes might cause modest distortions across reporting cycles.

Managers can effect earnings beyond accounting by changing operational decisions. Cutting discretionary spending like research, marketing, and maintenance, overproducing to spread fixed costs, or aggressively discounting to generate sales are real activity manipulation.

These strategies affect cash flow and long-term performance. They may increase stated profitability but reduce future competitiveness and wealth. actual activity modification affects actual transactions, rendering it epistemologically problematic. Financial statements purposely change actual activity to match accounting purposes.

In emerging markets with volatile macroeconomic conditions, managers may justify such adjustments as defensive responses to uncertainty. Management caution and earnings goals overlap. Without board oversight and long-term incentive alignment, short-term reporting demands may persist. Corporate governance safeguards reporting and reduces agency conflicts (Samal et al., 2024). Audit committees, independent directors, and internal controls initially resist manipulation. Freedom, experience, and authority suit them.

Nigerian corporate board appointments may reflect ownership concentration or relational networks, constraining independence. The audit committee may lack technical skills or rely heavily on management. Documented internal control frameworks may not be enforced.

Executive compensation can smooth earnings. Compensation connected to accounting indicators without long-term performance requirements raises management pressure (Fulmer et al., 2023). Without clawback or deferred reward, short-term manipulation may offer no personal risk.

Weak governance and unclear enforcement increase epistemic risk. Managers balance costs and benefits. Low detection probability and customisable punishments increase manipulation risk. Information is protected by external auditors. For accurate financial statements, they provide reasonable certainty. Market structure, fee reliance, and regulatory inspection intensity affect audit effectiveness.

Concentrated audit markets and economically significant client connections can cause independence issues. Long audits may cause familiarity challenges. Rotation regulations lessen risks, but consistent enforcement is needed. Professional and disciplinary norms impact audit

quality. Infrequent or unclear audit failure punishments diminish deterrence. The Financial Reporting Council of Nigeria's oversight is vital to professional epistemic discipline.

Auditors use informational asymmetries. Management data and internal papers are used. Hidden manipulation may go unnoticed without whistleblower and forensics. Thus, audit alone cannot guarantee epistemic integrity; credible enforcement is needed.

Investors, analysts, creditors, and regulators expect public corporations. Share prices, reputations, and covenants might suffer if market predictions fail. These characteristics may support income smoothing or disclosure timing. In inadequate investor protection markets, reputational damage may be less than in litigious states. If capital market reactions to restatements or enforcement efforts are muted, market discipline suffers.

Additionally, regulatory ambiguity may create grey regions. Principle-based norms require interpretation; managers may employ interpretative freedom when regulations are inconsistent or late. Clear enforcement communication is encouraged. Few earnings manipulation methods stand alone. Institutional context impacts accrual adjustments, operational distortions, governance issues, and audit constraints. Market pressure, concentrated ownership, fee-dependent audits, and weak regulators produce a corporate-friendly atmosphere.

Many companies report with integrity. But structural factors raise epistemic risk. Manipulation becomes normal. What institutional factors make manipulation likely is the key question for forensic-institutional analysis. Like Nigeria, formal regulatory sophistication can coexist with incentive distortions if enforcement credibility and institutional autonomy are absent.

### **A Forensic-Institutional Framework for Strengthening Epistemic Integrity**

The previous sections established that incentive structures, governance arrangements, audit dynamics, and enforcement regimes in Nigeria systematically manipulate earnings. Improve accounting standards and build an institutional framework that encourages epistemic integrity and rightfully sanctions deviance. This section establishes its forensic-institutional foundation.

Corporate disagreements, regulatory enquiries, and litigation sometimes prompt Nigerian forensic accounting (Akpootu & Yusuf, 2025). Reactive inquiry may identify problems but not changing systemic circumstances for modification. Forensic competence deters rather than intervenes.

Deterrence depends on detection, penalty, and enforcement. When any of these are weak, manipulation is cheaper. Regulatory monitoring must involve forensic examination to improve epistemic integrity.

Risk-based forensic audits of high-impact firms, data analytics for anomaly detection, and SEC-FRC cooperation may be needed. Not an exception, anticipatory enforcement should include forensic investigation. Enforcement credibility determines epistemic reliability (Raham, 2026). Uncertain, delayed, or politically administered consequences reduce deterrence. Thus, forensic-institutional frameworks encourage transparency and autonomy. Avoid political and economic intrusion for autonomy. Elite capture must be reduced by appointment, finance, and decision-making. Separating statutory funding from discretionary allocations increases regulatory insulation.

Transparency in procedure builds trust. Disclosure of enforcement actions, clear sanction rationales, and consistent penalty application show impartiality. Signalling works better when market players regard enforcement as rule-bound rather than discretionary.

Interagency cooperation is essential. Joint investigative platforms and formal cooperation agreements must harmonise regulations. Disintegration diminishes epistemic coherence. The key epistemic filter between firm disclosures and market participants is audit. In addition to compliance, forensic-institutional audits examine behaviour and motivation. Improved inspections, peer evaluation, and transparent disciplinary procedures boost professional standards (Kurbanalievich, 2026). Rotation, non-audit service limits, and audit tenure disclosure reduce familiarity and economic dependency. Transparent and proportional audit failure enforcement is crucial. Reputational discipline suffers from uncertainty. Accountability improves audit market signal credibility.

Professional organisations like the Institute of Chartered Accountants of Nigeria emphasise ethics over technique. Career growth should entail forensic awareness and ethical decision-making. Good internal governance cannot be replaced by external enforcement. Audit and board committees need independence and experience. Forensic-institutional rules encourage governance reform.

First, audit committees need financial experts to evaluate complicated accounting judgements (Couchoux, 2024). Second, to prevent earnings manipulation, executive compensation should incorporate long-term performance objectives and clawbacks. Third, internal whistleblowing avenues need legal protections for informants.

With incentive realignment, manipulation loses structural appeal. Long-term value creation and non-financial

indicators lessen pressure to smooth short-term profitability. Audits and informal information flow maintain epistemic integrity (Meyer, 2024). Analysts, minority shareholders, and employees often detect issues before authorities. A reliable whistleblowing system increases detection and deterrent.

Legal safeguards must protect whistleblowers and guarantee confidentiality (Abdulkerim-Osmanovic & Kazic-Cakar, 2024). Though controversial, incentive-based reporting systems can enhance detection. Regulators must address credible reports to maintain reporting channel credibility.

Whistleblowing feedback loops enhance forensics. From top-down regulation, they distribute reporting integrity accountability. Capital markets self-discipline. Transparent enforcement, rapid investigative disclosure, and regulator communication help investors price risk. When enforcement findings are uncertain, markets cannot punish misreporting. Integration of regulatory communication techniques into enforcement architecture boosts disclosure credibility. Public accountability boosts auditor and corporate reputations. Reputational damage often outlasts pecuniary penalties. By requiring more information and active management, institutional investors and analysts can establish epistemic standards. Legalising shareholder activism may boost governance accountability.

Financial reporting ecosystems include management, boards, auditors, regulators, professional bodies, courts, and market participants in the forensic institutional framework (Gupta & Tariq, 2024). Together, these aspects form epistemic integrity.

Key pillars of this ecosystem include:

Credible enforcement: predictable, proportionate, and insulated from capture.

Robust audit oversight: technically competent and ethically grounded.

Governance alignment: incentive structures oriented toward long-term value.

Informational openness: whistleblowing protection and transparent communication.

Absent alignment, reforms risk degenerating into symbolic compliance. With alignment, however, financial reporting can evolve from a procedural obligation into a trusted knowledge infrastructure.

## **Policy Implications, Limitations, and Future Research Directions**

### ***Policy Implications***

The preceding research reveals that technological standard adoption alone cannot ensure financial reporting epistemic

integrity. It requires enforcement, audit oversight, governance, and political economy structural alignment. The forensic-institutional approach of this investigation has policy implications.

Institutionalise enforcement autonomy first (Pistor, 2022). Nigeria's Securities and Exchange Commission and Financial Reporting Council need legal and financial protection from political intervention. Funding and appointment protections should encourage professional competence and independence and discourage discretionary executive allocations. Beyond legality, market trust rests on enforcement credibility.

Second, enforce transparently and predictably. Equal and proportional sanctions are needed. Public disclosure of enforcement decisions, reasoning, and evidence increases market discipline and deterrence. Regulatory opacity weakens signalling and supervisory epistemic function.

Forensic capacity should be institutional. Risk-based review, data analytics, and interagency cooperation boost detection. Supervision with forensic knowledge turns reactive correction into proactive deterrence.

Fourth, audit oversight requires help. Systematic, unbiased, transparent inspections are essential. Audit failure disciplinary actions must be visible for professional credibility. Monitoring audit partner rotation, non-audit service constraints, and tenure disclosure is crucial. Institutes like the Institute of Chartered Accountants of Nigeria must internalise ethics and technology. Fifth, corporate governance improvements should address incentives (Jiang & Kim, 2024). Adjust executive pay to match short-term accounting criteria with long-term value indicators. Mandatory restated earnings clawbacks increase accountability. Audit committee members must be financially savvy and impartial to make tough decisions.

Sixth, boost whistleblowing. Legal safeguards must prevent retaliation and guarantee confidentiality. Maintaining reporting channel trust needs regulatory response to accurate reports. Whistleblowing systems use formal enforcement and distributed detection.

These policies strive to turn financial reporting into a credible knowledge system from a compliance ritual. So reform must be structural, not piecemeal.

### ***Theoretical Contributions***

This study advances several conceptual contributions.

First, it introduces the notion of epistemic integrity as an evaluative lens for financial reporting. Unlike traditional metrics of compliance, epistemic integrity interrogates whether institutional arrangements enable truthful representation in practice.

Second, it integrates agency theory, institutional theory, signalling theory, and regulatory capture perspectives into a unified explanatory model. This multi-level framework demonstrates how micro-level incentives interact with macro-level political economy dynamics.

Third, it reconceptualises forensic accounting as a structural deterrent rather than a purely investigative function. By embedding forensic capacity within enforcement architecture, the study expands the normative role of forensic expertise.

These contributions extend accounting scholarship beyond firm-level behaviour toward systemic institutional analysis.

### **Limitations**

As a non-empirical conceptual study, this paper does not provide statistical validation of the proposed framework. The arguments are grounded in theoretical synthesis and contextual analysis rather than primary data. Empirical testing would strengthen the explanatory robustness of the model.

Second, the analysis focuses primarily on publicly listed firms and formal regulatory structures. Nigeria's large informal sector and privately held enterprises may exhibit different dynamics that fall outside the scope of this study.

Third, institutional dynamics are fluid. Regulatory reforms, judicial developments, and political transitions may alter enforcement trajectories over time. The framework offered here represents a conceptual snapshot rather than a static depiction.

Finally, the political economy analysis remains necessarily cautious. While regulatory capture risks are theoretically plausible, empirical investigation would be required to establish causal pathways in specific cases.

### **Conclusion**

The foundation of financial reporting is knowledge. Besides technological requirements, its legitimacy depends on the institutional ecology that develops, verifies, and enforces disclosure. Formal reforms like IFRS adoption and regulatory reorganisation have boosted financial reporting architecture in Nigeria. Architecture without alignment risks ritual compliance.

This study claims that managerial incentives, governance structures, audit dynamics, enforcement credibility, and political economy conditions affect epistemic integrity. Earnings manipulation is shaped by enforcement probability, institutional autonomy, and incentive alignment.

The research created a forensic-institutional paradigm for disclosure credibility by merging agency, institutional, signalling, and regulatory capture perspectives. Our methodology repositions forensic accounting as a

preventive deterrent inside regulatory architecture. Credible enforcement, predictable fines, coordinated oversight, and realigned governance incentives are needed.

The Nigerian case shows emerging economies that international standards are vital but not sufficient for transparency. Epistemic integrity demands autonomous, transparent, and consistent truth-keeping organisations. Financial statements can be trusted knowledge tools with credible enforcement and governance. Reporting risks becoming performative amid uncertain or politicised enforcement.

The public benefits from disclosure credibility. It supports economic growth, investor confidence, and capital allocation efficiency. Thus, strengthening epistemic integrity is a structural reform need in Nigeria's expanding financial system, not just an accounting goal.

### **Recommendations**

1. A central requirement for improving epistemic integrity is the institutional strengthening of regulatory bodies such as the Securities and Exchange Commission and the Financial Reporting Council of Nigeria. These institutions must operate with a high degree of financial and operational independence, insulated from political and corporate influence.
2. Forensic accounting should no longer be treated as a reactive tool reserved for crisis situations but should be embedded as a proactive and continuous component of regulatory oversight. This involves integrating forensic techniques such as data analytics, anomaly detection, and risk-based auditing into routine monitoring activities.
3. Audit functions must be strengthened to serve as effective epistemic filters between corporate disclosures and market participants. This requires stricter enforcement of auditor independence rules, including limitations on non-audit services, mandatory audit partner rotation, and transparent disclosure of audit tenure.
4. Corporate governance structures must be recalibrated to reduce the incentives for earnings manipulation. Boards and audit committees should be composed of independent and financially literate members capable of critically evaluating complex accounting judgments.

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