

CORPORATE GOVERNANCE AND AUDIT REPORT TIMELINESS IN NIGERIA

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The main focus of good corporate governance is adequate and faithful presentation of financial statements by directors to the various stakeholders. Faithful presentation of financial statements is predicated upon the audit quality of the financial statements. When the audit quality is compromised, it seems natural to expect that unfaithfulness will be commonplace in the financial reporting system. The persistent occurrence of corporate scandals and corporate

failures of modern era seems to be the natural aftermath of unfaithful financial reporting and the absence of quality audit (Adeyemi & Fagbemi, 2019; Lennox, 2017). The audit of various corporate entities is crucial to economic development on a macro level. It is an essential to the working of the capital market system which is a key component of the capitalist market economy. The objective of an audit is to plan and perform the audit to obtain appropriate evidence that is sufficient to support the opinion expressed in the audit report because the duty of the auditor is to express audit opinion on the financial statements presented to the auditors based on the audit evidence. The audit will likewise include the collaboration of everybody with a stake in the undertakings of the substance: the host network, loan bosses, financiers, providers, government and others. This implies there is more prominent data request on the substance; this in this manner places more noteworthy requests on the reviewer to guarantee the representativeness of the fiscal reports (Freeman, 1984; Jones and Wicks, 1999; Donaldson and Preston, 1995; Jones, 1995). This investigation additionally draws from the authenticity hypothesis. The executives consistently needs to be believed to get together to desires in order to have the option to legitimize their reality as the individuals who are deserving of keeping charge of other people groups' assets. The scandals of Enron, Worldcom, Sunbeam, Global Crossing, Tyco, Anil Ambani, UB Group, Global Tele-Systems Ltd, Coal India Ltd, Adani Group, Sahara Group, Ahold, Virendi, Cadbury Nigeria and Skandia are few examples that got world headlines (Farrarini, 2019; Mohammed, 2011; AlMatari, 2012; Gupta, 2015). These scandals hurt the corporate entities as well as the stakeholders' wealth and by extension hurt the entire economies. These corporate scandals all had at their roots in audit failures. These corporate collapses brought in their wake confusion and uncertainty, and devastating effects on employees, banks, lenders, creditors and investors (Obiyo & Ezenwa,

2012). Consequent upon these there was a slump in business activities and on a much larger scale, there followed a global economic crisis. Given that corporate scandals and corporate collapses affect public confidence and consequently the economic climate of a nation, a lot of emphasis is usually placed on the audits of financial reports. The fact of many audited firms collapsing, and later investigations tracing the cause of the collapse to undetected fraud and weak governance practices are indications of audit failure. This is what has drawn attention in recent research efforts to audit quality. This study seeks to investigate the relationship between corporate governance and timeliness of audit report in Nigeria.

1.2 Statement of Problem

In Nigeria, the need for high quality and timely financial information has become particularly imperative due to the increasing exposure of Nigerian business organizations to international capital markets (Adejumo,2017).

Thus, the business organizations are being obliged to satisfy the information demands of foreign investors and to provide them with more timely information in annual financial reports. The effect of corporate governance on timeliness of audit report has received little consideration in the developing economy. Much attention has been given in the developed world. The empirical literature on the nexus between corporate governance on timeliness of audit report in Nigeria have reported mixed result over the years (Alli, 2016; Zigler & Phill, 2015; Ogbu, 2019) these researchers however have a divergent view in respect to corporate governance attributes and timeliness of audit report. It is in view of this that this study aimed at doing an in-depth analysis

of this divergent views with the aim of identifying the causes of the gap and possibly close these gaps by using Nigerian data.

Another problem that create knowledge that motivated this study is the divergent view of researchers on criteria to analyze corporate governance which some researches opine the use of multiple criterion to analyze corporate governance, others do not agree to this.

Judging from the above, it is clear that this study has some fundamental problems to address which when dealt with will bring fore the effect of corporate governance on timeliness of audit report.

1.3 Research Questions

This research attempted to provide answers to the following questions in order to achieve the objectives of the study.

- i. To what extent does firm size affect timeliness of audit report in Nigeria quoted firms?
- ii. To what extent does board size affect timeliness of audit report in Nigeria quoted firms?
- iii. What is the relationship between profitability and timeliness of audit report in Nigeria quoted firms?

1.4 Objectives of the Study

The main objective of this study is to examine the impact of corporate governance on timeliness of audit report in Nigeria. The specific objectives are:

- i. To find out the extent to which firm size affects timeliness of audit report in Nigeria quoted firms.
- ii. To find out the extent to which board size affects timeliness of audit report in Nigeria quoted firms.
- iii. To find out whether there is any relationship between profitability and timeliness of audit report in Nigeria quoted firms.

1.5 Statement of Hypotheses

The hypotheses stated below in the null form will be tested in this research work.

H0₁: Firm size does not significantly affect timeliness of audit report in Nigeria quoted firms.

H0₂: Board size does not significantly affect timeliness of audit report in Nigeria quoted firms.

H0₃: There is no significant relationship between profitability and timeliness of audit report in Nigeria quoted firms.

1.6 Scope of the Study

This study is premised on the appraisal of corporate governance and timeliness of audit report in Nigeria Listed firms. The study focuses companies quoted on the floor of the Nigerian exchange group from (NGX) 2015 to 2021.

1.7 Significance of the Study

Investors and other stakeholders, who continue to rely on audited financial statements to give them a degree of certainty, have been disappointed and have demanded redress. This study

on the timeliness of audit report is therefore a significant contribution to data available on ensuring that financial statements are released on timely basis in order for investors to be able to make informed decisions on their investments.

Furthermore, this research study will provide evidence on the recent level of corporate disclosures in Nigeria. Timeliness in financial reporting is a significant characteristic of accounting information. State information is of little use to investors in their investment decision making processes.

A study of timeliness of audit report by companies in the Nigeria is an effort towards encouraging the protection of investors by the capital market regulators. Timely reporting will enhance decision making and reduce information asymmetry in capital markets. In essence, research into the determinants of timely reporting would be of much importance to regulators of capital markets in formulating policies that will enhance the market efficiency.

1.8 Limitations of the study

Like in most studies gathering all the needed information is usually met with a number of limitations.

The first constrained which affected this research work is difficulty in gathering the needed secondary data for the research work.

Another limitation of this study is that the research could not be carryout on all the listed firm in the Nigerian stock exchange due to limited resources and time frame schedule for the research work.

Lastly the researcher encountered some challenges in measuring the variables in the study and determining appropriate statistical tool for data analysis.

Despite all these problem, the researcher still believed that there is a great task to be accomplish, hence measures were put in place to remedy these aforementioned limitations .

1.9 Operational Definition of terms

Timeliness: The fact or quality of being done or occurring at a or useful time.

Financial Report: Financial statements (or financial report) is a formal record of the financial activities and position of a business, person, or other entity. A balance sheet or statement of financial position, reports on a company's assets, liabilities, and owners equity at a given point in time.

Financial Accounting: Financial accounting is a specialized branch of accounting that keeps track of a company's financial transactions.

Organizational Performance: Comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives).

Profitability: The state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio. That is, it is not an absolute number; instead it looks at what a business's profit means in the form of percentages or decimals. Profitability measures business's profits and helps to determine the business's success or failure

Efficiency: This measures the relative amount of inputs used for accomplishing actual output in a particular period.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

2.1.1 Corporate Governance

The concept “corporate governance” has attracted various definitions. Metrick and Ishii (2019) define corporate governance from the perspective of the investor as “both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment”. The implication of this definition is that corporate governance has an

impact on a firm's ability to access the capital market. Metrick and Ishii (2019) argue that firm level governance may be more important in developing markets with weaker institutions as it helps to distinguish among firms. Cadbury committee (1992) defines corporate governance as "the system by which companies are directed and controlled". Zingales (1998) also defines a governance system as "the complex set of constraints that shape the ex-post bargaining over the quasi rent registered by the firm".

According to Mayer (1997), corporate governance is concerned with ways of bringing the interests of (investors & managers) into line and ensuring that firms are run for the benefit of investors. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability. It has also been defined by Keasey (2018) to include 'the structures, processes, cultures and systems that engender the successful operation of organisations.' Corporate governance is also seen as the whole set of measures taken within the social entity that is an enterprise to favour the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Maati, 1999).

In the light of the foregoing analysis, it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Thus, corporate governance systems may be thought of as mechanisms for establishing the nature of ownership and control of organisations within an economy. In this context, 'corporate governance mechanisms are economic and legal institutions that can be altered through the political process - sometimes for the better'. Company law, along with

other forms of regulation (including stock exchange listing rules, & accounting standards), both shape and is shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on 'the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson & Mayer, 1992). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Maati, 1999). Corporate governance describes how companies ought to be run, directed and controlled.

2.1.1 Auditor Report

This is a formal opinion, or disclaimer thereof, issued by either an internal auditor or an independent external auditor as a result of an internal or external audit or evaluation performed on a legal entity or subdivision thereof (called an "auditee"). (Adeniyi, 2017). The report is subsequently provided to a "user" (such as an individual, a group of persons, a company, a government, or even the general public, among others) as an assurance service in order for the user to make decisions based on the results of the audit. An auditor's report is considered an essential tool when reporting financial information to users, particularly in business (Owie, 2019).

2.1.2 Board Size

The earliest literature on board size is by Lipton and Lorch (1992) and Jensen (1993). Jensen (1993) argued that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (2019) argued the possibility that larger boards can be less effective than small boards.

When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. Lipton and Lorch (1992) recommended limiting the number of directors on a board to seven or eight, as numbers beyond that it would be difficult for the CEO to control. A large board could also result in less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board (Lipton & Lorch, 1992). In addition, the problem of coordination outweighs the advantages of having more directors and when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality.

2.1.3 Board Independence

The independency of the board was measured through three proxies - the proportion, motivation and diligence of independent non executive directors. Proportion of independent Non executive directors was measured as the overall percentage of independent non executive directors on the board to the board size, while the diligence was measured as the average participations of independent non executive directors in annual meetings. Hermalin and Weisbach (2019) argue that the proportion on independent non executive directors is grouped into two categories. The first one for companies that have less than the recommended requirement of at least one third of independent non executive directors while the second group

for companies that did not comply with this requirement. Meanwhile, the diligence proxy was categorized into three subgroups. Companies that have at least two third average participations of independent non executive directors in board meeting as 'High' and those with less than one third as 'Low' while the rest as 'medium'. Finally, the third proxy, motivation, is measured as the average compensation or monetary fees, including salaries and bonuses paid to independent non executive directors in a year. (Jenkinson & Mayer, 1992).

2.1.4 Audit Committee Independence and Timeliness of Audit Report

To mention but a few an indication that a lot has been said about independence as it relates to the Nigeria economy. In this part of the research attention shall be given to international law and regulations as they relate to audit committee independence. “Sarbanes Oxley” section 301 of Sarbanes Oxley added section 10A (M) (1) requires the SEC to adopt rules directing the exchanges to prohibit the listing of any security of a company that is not in compliance with the requirement of New Section 10A (M) (2) (6) after providing the company with an opportunity to correct any defects New section 10A (M) (2) (6) of the exchange Act set forth five separate requirement relating to audit committees paragraph (3) set forth minimum independence criteria for audit committee members.

SEC: Rule 10A 3 under the Securities Exchange Act of 1934 (SEC Release No. 34 47654) (April 9, 2019) implementing Sarbanes Oxley Section 301 by requiring the exchange and Nasdaq to adopt rules that prohibit the initial on continued listing of any security of a listed company that is not in compliance with minimum audit committee member independence criteria of proposed rule 10A (3) (6) Rule 10A 3 (6) (1) set forth the required minimum standards for audit committee independence which are:

- Each member of the audit committee must be a member of the Board of Director of the listed (company) and must otherwise be independent that where a listed (company) is one or two dual holding companies those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the Board of directors of at least one of such dual holding companies.
- Independence requirement for non-investment company issuers in order to be independent for purpose of this paragraph (b) (1) a member of an audit committee of a listed (company) this is not an investment company may not other that in his or her capacity as a number of the audit committee the board of directors or any other board committee;
- Accept directly or indirectly any consulting advisory or other compensating free from the (company) or any subsidiary thereof provided that unless the rules of the national securities exchange or national securities association provided otherwise compensatory fees do not include the receipt of fixed amount of compensation under a retirement plan (including deferred compensation) for prior service with the listed (company) (provided that such compensation is not contingent in an way or continued service.

2.2 Theoretical Framework

2.2.1 Agency Theory

This seems to be the dominant paradigm and has been used widely in different aspects of corporate finance and certainly in Corporate Governance studies and analyses (Davies, 2019; Dedman, 2004). The theory is rooted in the work of Berle and Means (2012) on the separation of firm ownership from management. It is also often credited to the landmark work of Jensen and Meckling (2011) and Fama and Jensen (2019). They suggested that Agency problems will arise

in any circumstance where the Principal (owners, shareholders) employs the Agent (management) to undertake a number of duties on their behalf for a reward. Thus management acting as Agent to the Principals owe them a fiduciary duty of care to run the organisation in the best interests of the owners for a stipulated reward (Berles and Means, 2013; Jensen and Meckling, 2000; Pratt and Zeckhauser (2019), However, Jensen and Meckling (2006) argue that conflicts of interest do inevitably exist between the management and owners of businesses in cases where owners are not managers. This is because the theory assumes a model of man (manager) that is self-serving, individualistic and opportunistic in nature, who prefers to maximise his own utility functions at the expense of the owners. As a result, the theory is built on the assumption that there is almost always a divergence of objectives between the goals of the management and those of the shareholders.

Furthermore, given that shareholders have different risk attitudes compared to management (Jensen and Meckling, 2006), the continuous existence of information asymmetry may impose on the principal the need to institute some forms of controls. These control mechanisms require the allocation of resource and have the tendency to increase the costs of operations, often referred to as the agency cost. Agency problems may exist in a number of instances within the organisation. They are known to exist in diversification and investing decisions and in decisions relating to mergers and acquisitions (Lane Lawrence and Stapledon, 2018). This may relate to management's tendencies to prevent suitable offers in furtherance of their own interests at the expense of the shareholders" (Kosnik, 2019; Ribbens, 2005; Lane et al, 2018. The agency problem is not limited to the relationship between management and shareholders alone, although this seems to have enjoyed the most attention. It may also be exhibited in the relationship between management and debt-holders (Jensen and Meckling, 2006;

Myers, 2012; Shleifer and Vishny, 2019; Stulz, 2011). Often the primary concern is how to reduce or minimize the agency cost of operations and thereby increase the returns available for sharing among the residual claimants. However, in the context of increasing separation of ownership from management, as the ownership base becomes more dispersed, management tend to become less accountable and their activities less observable, at least to the shareholders (Fama,2001). While management are involved in the operational decision making of businesses, owners are either so numerous that they cannot all be involved in the management of the firm or they do not possess the right type of skills to manage the enterprise successfully (Morck and Steier, 2001). However, management are more closely involved in the business and for a longer time than the owners and thus have more information about the business than its owners individually. This creates the classic case of information asymmetry (Aboody and Lev,2000). Differences in the nature and scope of information between the two parties exacerbate the agency problems. For reasons mentioned earlier, shareholders are often at a disadvantage: this gives management an unbridled opportunity to consume perks or take sub-optimal decisions that affect the organisation (Murphy and Zimmerman, 2007), conflicting with shareholders wealth maximization objectives.

A number of mechanisms have been devised to reduce conflicts of interest and their impacts on organisations. These include incorporating in the contract between the contracting parties as many clauses as possible that simulate possible scenarios and attempt to provide for them in the contract. Other methods of control include incentivizing the management and linking management compensation to performance, reducing the free cash flow available within the organization through debt financing which reduces the possibilities of consumption of

perquisites. Also increasing management's stake in the equity of the company has been suggested.

Jensen and Meckling (2020) have argued that increasing managements' share ownership should bring their interest more closely with those of other shareholders. However, the risks of management entrenchments have also been identified (Lane et al, 2018; Shleifer and Vishny, 2001). This refers to a situation where management's share ownership is so substantial that they can wield significant power and hence influence the composition of the board of directors. This may facilitate management shirking and excessive consumption of perks.

2.2.2 Stakeholder Theory

One of the criticisms of Agency Theory is that it provides a short term perspective and explanation of the purpose of the firm (Freeman, 1999; Freeman, Wick and Parmar, 2004). Also, critics argue that its scope is narrow, since it projects the activities of the firm from the perspective of the shareholders only.

An alternative proposition known as the Stakeholder Theory suggests that a firm's activities should be projected on longer and broader perspectives (Freeman, 1999). The theory posits that the essence of corporate activity is not only for the benefit of the shareholders, but also for the benefit of all relevant stakeholders (including the shareholders) and it is all these relevant stakeholders who should be the main remit of the modern firm (Freeman, 1999; Cadbury, 1992; Jensen, 2001). It argues that firms should be managed in such a way that they coordinate the diverging interests of their numerous stakeholders including employees, shareholders, customers, suppliers, the government and society in general. This consideration

should thus impact upon the formulation of the corporate strategy of the organisation as a whole (Marcoux, 2019).

The arguments for the stakeholder view of the corporation have often been premised on moral and business ethics (Phillips, 2000). However, as pointed out earlier in the discussion of Agency Theory, the perception of the interaction and the nature of the relationship between the firm and society are greatly influenced by our own points of view on what the main purpose of the firm is. One such view is that of the classical economist, summed up succinctly in Carr (2019). Although his views might not be totally representative of all classical economists, a good number of them share his notion of “pure-profit making” as the only objective of the firm. So much so that he suggested that businesses have a lower standard of ethics compared to society as a whole and therefore an abdication of all moral or ethical concern is consistent with the achievement of the firm’s “pure profit making” goals. A modified classicalist view suggests that whilst businesses pursue the main objective of shareholder value maximisation, they should be aware of their responsibility to society by being obedient to the law and being ethical, this is the “constrained profit making” view of the firm (Friedman, 1998 in Branco and Rodrigues, 2007). However, even if the researcher assumes that businesses have a duty to protect the interests of all stakeholders, the researcher will still be confounded by the problem of tradeoffs involving the conflicting interests of all the stakeholders. Lack of measureable objectives with respect to each of the stakeholders still provides opportunity for management to be less accountable and to consume perquisites (Mallin 2004). Jensen (2001) has observed that proponents of the Stakeholder Theory have been unable to provide realistic resolutions of the numerous conflicting interests of stakeholders that businesses need to protect. He therefore suggested a strand of Stakeholder Theory which he referred to as the “enlightened Stakeholder Theory” or the

“enlightened shareholders maximisation theory”. The theory posits that in order to maximise stakeholders value, businesses should focus on maximising shareholders returns and this in itself would ensure the maximum return to all stakeholders. He further explains that a business would not be able to maximise shareholders value if any stakeholder is ignored or mistreated.

Stakeholder Theory is very important in the context of a spectrum of discussions on Corporate Governance, not least the form of the control mechanisms adopted, and the possibility of control mechanisms playing substituting and/or complementary roles (Fung, Rui and Firth, 2019). The continental European model of Corporate Governance is known to favour the stakeholder perspective of the firm (Moerland, 2000). This is evident in the structures and composition of the board of directors and in the roles played by other stakeholders. For example, it is normal for financial institutions to own substantial stakes in companies in Germany or France and it is also usual that they have a representative on the governing board of such companies, in addition to the earlier mentioned roles of the employees in the firm’s management, (Goergen Kennedy, Josiash, and Nixan, 2007). This governance arrangement has been argued to provide financial stability for these firms and also to ensure closer monitoring from the financial investors (Goergen et al, 2007). The stakeholder model approach to Corporate Governance has been criticised for being inadequate as a complete theory of the firm, but rather no more than a logical presentation of a series of techniques (Key, 2000).

Another criticism that has been levelled against the Stakeholder Theory of the firm is that it is unrealistic. The notion that the firm exists to benefit all stakeholders who do not directly have a stake in the firm appears bogus and at best superficial and this perhaps explains the complexity or near impossibility of a mechanism that will effectively allocate residual returns of the firm to all its stakeholders (Jensen, 2001; Carr, 2020). It thus seems to have limited empirical

applicability in Corporate Governance as it lacks specificity and is difficult to operationalise. This is especially so since it is not measurable and observable. Unlike the Agency Theory of the firm, it is not suggesting a set of measurable variables that can proxy for stakeholders' interest or power in the firm.

2.2.3 Resource Dependency Theory

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2020). According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like.

According to Abdullah and Valentine, directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandona, 2007).

The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Wang, 2020).

The agency theory concentrated on the monitoring and controlling role board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management. Recently, both economists and management scholars tend to assign to boards the dual role of monitors and advisers of management. However, whether boards perform such functions effectively is still a controversial issue (Ferreira, 2018). Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of management and shareholders, to providing information for monitoring and counseling, and to ensuring effective decision-making (Marinova Ozoanigbo, Orjinta and Ofor, 2018). The dual role of boards is recognized. However, board structure has relied heavily on agency theory concepts, focusing on the control function of the board (Habbash, 2018).

2.3 Empirical Review

2.3.1 Board Size and Timeliness of Audit Report

Corporate boards are responsible for monitoring the quality of information contained in financial statements that are communicated to the public. One of the disadvantages associated with a large board is communication/coordination problem which makes large board as less efficient monitoring of prompt reporting of financial statements than small board (Dimitropoulous & Asteriou, 2018). Makand (2001) argue that large board creates less participation, is less organized and is less able to reach an agreement about audit process and procedures. Beasley (1996) shows that an increase in board size will slow the process of decision

making; and by implication the audit process. He attributed this to the number of times larger board may decide to hold their meeting in order to arrive at a decision on the audit process and the release of the audit report. Firms with a small board exhibit greater informativeness and show a stronger response that may lead to delay in the audit process (Xie, 2019). Furthermore, smaller board may be less encumbered with bureaucratic problem, more functional and more able to provide better financial reporting oversight. Abdul-Rahman and Mohamed-Ali (2006) show that board size and audit delay are positively related. Meanwhile, Bradbury, Mak and Tan (2006) evidenced that board size and audit report lag are negatively associated.

The most common corporate governance is board size. The impact of board has not been fully established in researchers. Some researchers such as Dimitropoulos and Asterious (2018); Dalton and Mak (2001) argue that large boards are less effective at monitoring due to difficulties in coordinating board activities and directors being more likely to “free-ride” than in smaller boards. While other are of the opinion that larger board can be more effective, particularly for more complex firms where advantage from the greater advisory capacity may outweigh the cost of less effective monitoring that larger boards.

Atiase, Bamber and Tse (2020) found that large companies report earnings faster than small companies and the reporting of earnings has a more significant market reaction for small firms than for large firms. In a study of Australian firms, Davies and Whittred (1980) found that small firms and large firms made significantly more timely report than medium-size firms and that profitability was not a significant variable. According to Dimitropoulos and Asteriou (2018), one of the disadvantages with a large board is communication/ coordination problem, which makes a large board less efficient monitors than a small board. The directors’ “free-rider” is also more intense in a large board than a small board. Dalton, Daily, Johnson and Ellstrand

(1999) argue that a large board creates less participation, is less organized, and is less able to reach an agreement. Beasley (1996) show that an increase in board size is related to higher incidence of fraud cases Vafeas (2000) documents firms with small board exhibit greater earnings informativeness i.e. their report earnings solicit a stronger investor responses, as reflected by stock returns. Xie (2019) also argue that a smaller board may be less encumbered with bureaucratic problems, more functional and more able to provide better financial reporting oversight.

In Malaysia, previous studies have yielded mixed results on the effect of board size and the quality of financial reporting. Abdul-Rahman and Mohamed-Yusuf (2006) show that board size and earnings management are positively related. Meanwhile, Bradbury, Mak and Tan (2006) find the opposite. According to Jensen (1993) the directors' "free-rider" problem is also more intense in a large board than a small board. Mak and Li (2001) argue that large board creates less participation, is less organized, and is less able to reach an agreement hence concluded that board size and earnings management are positively related. Mohamed- Yusuf and Lee (2020) show that in 2019, out of 752 companies, larger board size also seems to exacerbate audit lag although. According to Mohammed-Nor (2001) multivariate analysis using 628 annual report of Malaysian public companies for the year ended 2019 they discovered that larger board size also seems to exacerbate audit lag, although it is not statistically significant.

2.3.2 Board Independence and Timeliness of Audit Report

The importance of outside directors has been recognized even at the level of policy, with codes of corporate governance giving a special attention to the need to have a reasonable proportion of them on the board of listed firms. Empirical evidence has shown that properly

constituted boards with the right mix of non-executive directors tend to contribute an unbiased sense of judgment in selection members that make up the audit committee (Bhagat & Black 2001). A board comprising a reasonable proportion of inside and outside directors is more likely to be independent of management than one dominated by inside directors, and therefore more likely to protect the interests of other stakeholders (John & Senbet, 1998).

Taking the case of Nigeria, the new code of corporate governance provides that the non-executive directors should be in the majority, and that a non-executive director should specify audit roles, choice of audit firm in order to avoid delay in preparation of audit reports. In a recent empirical work, Hayes (2004) reported no relationship between the fraction of outside directors serving on a committee and audit delay. John and Senbet (1998) noted to have been in support of greater participation of outside directors on the major committees of the board so as to enhance the timeliness of report.

2.3.3 Corporate Governance and Timeliness of Audit Report

Corporate boards are responsible for monitoring the quality of information contained in financial statements that are communicated to the public. The Bursa Malaysia Corporate Governance Guide (2007) reiterates that the board is required by law to ensure that the financial statements of the company represent a true and fair view of the state of affairs of the company and that they are prepared in accordance with applicable approved accounting standards.

A study by Bedard and Gendron (2018) indicated that the associations between audit report and corporate governance is stronger in the US than other countries. Based on their review, they show that the characteristics of the audit committee that have the greatest impact

(with the figures in parentheses indicating the proportion of studies/analyses reviewed that show positive association between the characteristic and audit committee effectiveness) are existence (69%), followed by independence (57%), competence (51%), number of meetings (30%) and size (22%). They conclude that the effectiveness of audit committee practices may vary with “environmental factors such as concentration of ownership, enforcement level and exposure to lawsuits, and mimicking the best US practices regarding audit committees may not deliver the desired effect. Borrowing from the insights generated by some of the studies reviewed in Bedard and Gendron (2018) and other studies, especially in Asia, that are not covered in Bedard and Gendron (2018) we present the hypothesized association between audit committee characteristics and audit report below. The researcher also borrow insights from other studies on the relationship between board characteristics and accruals quality to develop hypotheses linking board characteristics with another aspect of financial reporting quality; namely, the timeliness of audited financial statements.

2.3.4 Audit committee Independence and Timeliness of Audit Report

Morgan and Bockius (2019) showed that the audit committee independence influences Audit report. Morgan and Bockius (2019) provided weak evidence that audit committee independence is positively associated with the quality of financial information disclosure, proxied by the accuracy of initial public offering management earnings forecast.

However, most of the studies reviewed by Bedard and Gendron (2018) indicated that audit committee independence is not an important determinant of effectiveness, and they caution that the incremental costs of poorer communication, coordination, involvement and decision making associated with a larger audit committee might outweigh the benefits.

2.4 Summary of the Review

The timeliness of audited corporate annual financial reports is considered to be a critical and important factor affecting the usefulness of information made available to external users. Timeliness requires that information be made available to users as rapidly as possible and before it loses its ability to influence decision making (Carslaw, 2016). It is recognized in the literature that the shorter the time between a company's financial year end to the date of the auditor's report, the more benefit can be obtained from the audited financial statements (Courtis 2015).

However, it is not acceptable to publish financial statements unless a certified public accountant (External auditor) first audits them. It has been argued that the delay in publishing the audit report is a critical factor in Emerging and newly developed capital markets where the audited financial statements in the annual report are the only reliable source of information available to investors (Leventis & Courtis 2014).

The usefulness of the information conveyed in the financial statements will diminish as the time Lag (audit delay) increases. Studies have shown that there is an inverse relationship between the quality of financial information and the timeliness with which it is reported (Kenley & Staubus, 2017). Accounting information becomes less relevant with the passage of time (Lawrence & Glover, 2018).

The investors need timely information for reducing the asymmetric dissemination of financial information (Jaggia & Tsui, 2016) and for the growth of investing community as a whole. Undue delay in releasing financial statements results in greater market inefficiency reduces the relevance of the documents and its information content and increases uncertainty associated with investment decision (Ashton & Tsui, 2017).

A lot of scandals in various capital markets of the world occur when investors do not have access to timely information. Thus timely release of information is an essential ingredient for a well-functioning capital market. It helps in attracting capital and maintaining investors' confidence in the capital market, it contributes to the prompt and efficient performance of stock markets in their pricing and evaluation functions, it mitigates insider trading, leakages and rumours in the market. (Givoly & Palimon, 2012). Therefore, a study on the current level of timelines of audit report in Nigeria is in the right direction as there appears to be dearth of literature in this area.

CHAPTER THREE

RESEARCH METHOD AND DESIGN

3.1 Research Design

The research design adopted for the study is longitudinal research design. The essence is to capture the causal relationship between firm characteristics and audit report delay.

3.2 Description of Population of the Study

The population of the study comprises of quoted manufacturing firms in Nigeria from 2015 to 2021.

3.3 Sample Size

The sample size of the study is 41 quoted manufacturing firms in the Nigeria Exchange Group (NGX)

3.4 Sampling Techniques

This study used purposive sampling technique to select the subjects for the study.

3.5 Source of Data Collection

The researcher's tools that were adopted in obtaining relevant data for this study were the annual reports of the firms under study for the period 2015 to 2021.

3.6 Method of Data Presentation

Data obtained from secondary data were analyzed using E-View Computer Software. The study used regression analysis to investigate the impact of independent variables on dependent variable. A multiple linear regression model was used to establish the significance of the model. The results obtained from the model are presented in tables to aid and ease the analysis.

3.7 Model Specification

The regression model adopted in this study is presented below as:

The model of this study is;

$$\text{TAR} = \alpha_0 + \alpha_1 \text{FMSZ} + \alpha_2 \text{PROF} + \alpha_3 \text{BDSZ} + \mu_0$$

TAR= Timeliness of Audit Report

FMSZ=Firm Size

PROF= Profitability

BDSZ= Board Size

Level of significance

The 5% level of significance is adopted in this study as this is a suitable level of significance in management sciences.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Presentation and Analysis of Data

Table 4.1 below presents the summary of the descriptive statistics for the dependent and independent variables for 41 observations. For dependent variable, it was observed that Timeliness of audit report (TAR) has a mean value of 0.156506 and a standard deviation of

0.217288 among all variables. The maximum in Timeliness of audit report is 1.246384 while the minimum is -0.281726.

For the independent variables, the firm size, profitability and board size. Profitability is measured by the return on assets. Firm size has a mean value of 31.78421 and a standard deviation of 2.823945. profitability has a mean value of 1.562364 and a standard deviation of 1.385516 while board size has a mean value of 0.651965 and a standard deviation of 0.692562.

Table 4.1 Descriptive Statistics

	TAR	FRMSZ	ROA	BDSZ
Mean	0.156506	31.78421	1.562364	0.651965
Median	0.094510	32.09804	1.179320	0.585460
Maximum	1.246384	35.35181	13.73180	8.060153
Minimum	-0.281726	19.91139	0.058969	0.034195
Std. Dev.	0.217288	2.823945	1.385516	0.692562
Skewness	2.723434	-1.748766	4.481758	8.468091
Kurtosis	11.24116	6.477015	31.02702	82.64160
Jarque-Bera	1295.023	313.1505	11147.93	85356.33
Probability	0.000000	0.000000	0.000000	0.000000
Sum	48.36034	9821.320	482.7704	201.4573
Sum Sq. Dev.	14.54193	2456.197	591.2535	147.7300
Observations	41	41	41	41

Source: Researcher's Computation Using E-View (2022)

Table 4.2 Correlation Matrix

Correlation	FPERF	FRMSZ	LIQ	BDSZ
TAR	1.000000			
FRMSZ	0.139082	1.000000		
ROA	0.265487	0.085659	1.000000	
BDSZ	-0.012267	0.032158	-0.079892	1.000000

Source: Researcher's Computation Using E-View (2022)

Table 4.2 shows that the measure of financial statement disclosure has a mixed correlations with the various explanatory variables used in the study. The explanatory variable of firm size, ROA are positive. The coefficient of Timeliness of financial reporting with other explanatory variables are relatively close except for Board size with a coefficient of -0.012267. The table shows that no two of the explanatory variables are perfectly correlated or nearly so. Thus, the problem of multicollinearity is absent in this model.

Regression Results

	Expected sign	Fixed Effect	Random Effect
TAR		2.2822 (5.7102) [0.0000]	0.6496 (2.7199) [0.0069]
FRMSZ	+	-0.0671 (-5.3416) [0.0000]	-0.0161 (-2.1533) [0.0321]
ROA	+	0.0097 (1.9425) [0.0532]	0.0108 (2.1945) [0.0290]
BDSZ	+	-0.0106 (-1.6910) [0.2467]	-0.0013 (-0.1424) [0.8869]
R-Squared		0.8477	0.0260
Adj-R-Squared		0.8153	0.0164
F-Statistics		26.1715 (0.000)	2.7145 (0.0450)
Durbin-Watson Stat		2.1829	1.7068
Hausman Test (Chi-Sq)		-	33.0323 (0.0000)
N(n) Unbalanced Observations		41	41

Source: Computed from the Data in Table 4.1

Note: bold prints are regression coefficients () are t-statistics while bracket [] are p-value

In testing for the relationship between the dependent and independent variables in the Return on Asset (ROA) – profitability model, the two widely used panel data regression estimation techniques (fixed effect and random effect) were adopted.

The results revealed differences in the magnitudes of the coefficients, signs and number of insignificant variables. The estimation of the fixed effect panel regression was based on the assumption of no correlation between the error term and explanatory variables, while that of the random effect, considers that the error term and explanatory variables are correlated. In selecting from the two panel regression estimation results, the Hausman test was conducted and the test is based on the hypothesis that if the p-value is less than 0.05, the random effect model is preferred to fixed effect model. A look at the p-value of the Hausman test (0.0000) implies that the researcher should accept the hypothesis at 5% (0.05) level of significance. This implies that the researcher should adopt the random effect panel regression results in drawing our conclusion and recommendations.

4.2 Hypotheses Testing

Test Statistic

The statistical tool used in testing the stated hypothesis is the regression test procedure which uses the individual significance test (t-Test) and the overall significance test (F-Test). The goodness of fit of the model is tested using the coefficient of determination. The estimation of these statistics is done using the E-View computer software.

Significance Level

The Level of significance adopted in testing the stated hypothesis of this study is 5%. This Level is usually considered adequate for studies in management and other behavioral sciences.

Decision Rule

The critical p-value used in these tests is 0.05. Thus, the researcher accepts a given alternative hypothesis as being accepted if calculated p-value is less than or equal to 0.05, otherwise the researcher accepts the null hypothesis that there is no significant effect.

Hypothesis 1

Ho: Firm size does not significantly affect timeliness of audit report in Nigeria quoted firms.

Hi: Firm size affects timeliness of audit report in Nigeria.

Computation

The test statistic is computed by E-View software and the results are as shown in Table 4.3.

Table 4.3 Regression Results on Firm Size and timeliness of audit report in Nigeria.

Variable	Coefficient	t-test statistic	p-value
FRMSZ	0.016054	-2.153333	0.0321

Source: (E-View Computations, 2022)

Decision

With a coefficient of 0.016054 the results indicate that firm size negatively has impacts on timeliness of audit report in Nigeria, while the probability value of 0.0321 indicates that the positive impact is significant. This leads to the acceptance of the alternative hypothesis, thus rejecting of the null hypothesis. The researcher accepts that firm size affect timeliness of audit report in Nigeria.

Hypothesis II

Ho: Board size does not significantly affect timeliness of audit report in Nigeria quoted firms.

Hi: Board size significantly affects timeliness of audit report in Nigeria quoted firms.

Computations

The test statistic is computed by E-View software and the results are as shown in Table 4.4.

Table 4.4 Regression Results on Board size and timeliness of audit report in Nigeria.

Variable	Coefficient	t-test statistic	p-value
BDSZ	-0.001269	-0.142371	0.8869

Source: Results (E-View Computations, 2022).

Decision

With a coefficient of -0.001269 the results indicate that board size negatively has impacts on timeliness of audit report in Nigeria, while the probability value of 0.8869 indicates that the negative impact is not significant. This leads to the acceptance of the null hypothesis, thus rejecting of the alternative hypothesis. The researcher accepts that board size does not affect timeliness of audit report in Nigeria.

Hypothesis III

Ho: There is no significant relationship between profitability and timeliness of audit report in Nigeria quoted firms.

Hi: There is a significantly relationship between profitability and timeliness of audit report in Nigeria quoted firms.

Computations

The test statistic is computed by E-View software and the results are as shown in Table 4.5.

Table 4.5: Regression Results on profitability and timeliness of audit report in Nigeria.

Variable	Coefficient	t-test statistic	p-value
ROA	0.010847	2.194480	0.0290

Source: (E-View Computations, 2022)

Decision

With a coefficient of 0.010847 the results indicate that profitability positively impacts timeliness of audit report in Nigeria, while the probability value of 0.0290 indicates that the positive impact is significant. This leads to the acceptance of the alternative hypothesis, thus rejecting the null hypothesis that there is no relationship between profitability and timeliness of audit report in Nigeria.

4.3 Discussion of Findings

The study adopted the least square regression analysis and adopted unbalanced data regression estimation technique. The explanatory variables used in the model employed are firm size (FRMSZ), Return on Asset (ROA), and board size (BDSZ).

All the variables are significantly normally distributed at 5% level of significance. The correlation matrix indicates the explanatory variables have mixed relationships with dependent variable (timeliness of audit report). The results also indicate the absence of multi-collinearity.

Firm size (FRMSZ) variable: With a coefficient of 0.016054 the results indicate that firm size negatively has impacts on timeliness of audit report in Nigeria, while the probability value of 0.0321 indicates that the positive impact is significant. This leads to the acceptance of the alternative hypothesis, thus rejecting of the null hypothesis. The researcher accepts that firm size affect timeliness of audit report in Nigeria.

Board size (BDSZ) variable: With a coefficient of -0.001269 the results indicate that board size negatively has impacts on timeliness of audit report in Nigeria, while the probability value of 0.8869 indicates that the negative impact is not significant. This leads to the acceptance of the null hypothesis, thus rejecting of the alternative hypothesis. The researcher accepts that board size does not affect timeliness of audit report in Nigeria.

Return on Asset (ROA) variable: With a coefficient of 0.010847 the results indicate that profitability positively impacts timeliness of audit report in Nigeria, while the probability value of 0.0290 indicates that the positive impact is significant. This leads to the acceptance of the alternative hypothesis, thus rejecting the null hypothesis that there is no relationship between profitability and timeliness of audit report in Nigeria.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Having examined timeliness of audit report and corporate profitability, The following findings were made:

- i.** Firm size significantly affects timeliness of audit report in Nigeria.
- ii.** Board size does not significantly affect timeliness of audit report in Nigeria.
- iii.** There is a significant relationship between profitability and timeliness of audit report in Nigeria.

5.2 Conclusions

It can be argued that the timelines of audit report is crucial for organization survival. From the result of this study, the following conclusions can be drawn.

Firstly, there appears to be evidence of an unusually long audit delay made by the Nigerian listed companies included in this study. The average interval between statement of financial position date and the date of auditor's report is four months for Nigerian companies.

Although, the average Reporting Lag is 121 days as against shorter Reporting Lag reported for other developed countries. With regard to timeliness as qualitative objective of financial statements, this evidence can be regarded as indicating unsatisfactory position regarding financial reporting in Nigeria.

5.3 Recommendations

The following recommendations are hereby put forward in line with the findings of the study:

- i. Companies should ensure transparency in financial reporting activities. This improvement should take the form of timely and adequate disclosures in financial statements.
- ii. Disclosure of companies' activities should be done very early so that investors would be able to make informed decisions on their investments.
- iii. Regulatory agencies should brace up to the challenges that late disclosures can have in dampening capital market activities.

5.4 Suggestions for further study

Having examined corporate governance and timeliness of audit report, the following areas are suggested for further studies:

- i. Timeliness of financial report and earnings management.
- ii. Firm attributes and timeliness of audit report.

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Appendix

Descriptive Statistics

	TAR	FRMSZ	ROA	BDSZ
Mean	0.156506	31.78421	1.562364	0.651965
Median	0.094510	32.09804	1.179320	0.585460
Maximum	1.246384	35.35181	13.73180	8.060153
Minimum	-0.281726	19.91139	0.058969	0.034195
Std. Dev.	0.217288	2.823945	1.385516	0.692562
Skewness	2.723434	-1.748766	4.481758	8.468091
Kurtosis	11.24116	6.477015	31.02702	82.64160
Jarque-Bera	1295.023	313.1505	11147.93	85356.33
Probability	0.000000	0.000000	0.000000	0.000000

Sum	48.36034	9821.320	482.7704	201.4573
Sum Sq. Dev.	14.54193	2456.197	591.2535	147.7300
Observations	41	41	41	41

Source: Researcher's Computation Using E-View (2022)

Table 4.2 Correlation Matrix

Correlation	FPERF	FRMSZ	LIQ	BDSZ
TAR	1.000000			
FRMSZ	0.139082	1.000000		
ROA	0.265487	0.085659	1.000000	
BDSZ	-0.012267	0.032158	-0.079892	1.000000

Source: Researcher's Computation Using E-View (2022)

Regression Results

	Expected sign	Fixed Effect	Random Effect
TAR		2.2822 (5.7102)	0.6496 (2.7199)

		[0.0000]	[0.0069]
FRMSZ	+	-0.0671 (-5.3416) [0.0000]	-0.0161 (-2.1533) [0.0321]
ROA	+	0.0097 (1.9425) [0.0532]	0.0108 (2.1945) [0.0290]
BDSZ	+	-0.0106 (-1.6910) [0.2467]	-0.0013 (-0.1424) [0.8869]
R-Squared		0.8477	0.0260
Adj-R-Squared		0.8153	0.0164
F-Statistics		26.1715 (0.000)	2.7145 (0.0450)
Durbin-Watson Stat		2.1829	1.7068
Hausman Test (Chi-Sq)		-	33.0323 (0.0000)
N(n) Unbalanced Observations		41	41

Source: Computed from the Data in Table 4.1