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# DETERMINANTS OF AUDIT REPORT LAG: EVIDENCE FROM QUOTED MANUFACTURING FIRMS ON THE NIGERIAN STOCK EXCHANGE

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## ABSTRACT

*This study investigates the determinants of audit report lag of quoted manufacturing firms in Nigeria. The study specifically examines the effect of audit tenure, client size, board size, audit firm size, CEO Duality and board independence on audit report timeliness of quoted manufacturing firms. The study is anchored on agency theory. The study adopts the ex-post facto research design. The sample comprised of sixty six (66) manufacturing firms quoted on the Nigerian Stock Exchange (NSE) as at 31st December 2017. The study used secondary data obtained from annual reports and accounts. The data were analysed using multiple regression technique. The results showed that audit tenure and board size were negative but not statistically significant. The surrogate for client size was positive but not significant; while, audit firm size, board independence, and CEO-duality were all positive and significant. Consequent on these findings, it was recommended amongst others that, companies maintain audit firms for a reasonable amount of time before rotation. Studies have shown that large and internationally affiliated audit firms conduct their audit assignments relatively faster than smaller firms. It is recommended that companies employ the services of audit firms relative to the size of the firm.*

**Keywords:** Audit Report Lag, Audit Tenure, Client Size, Board Size, Audit Firm Size, CEO duality, Board Independence, Agency Theory.

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## 1. Introduction

Financial statements provide information useful to a wide range of users in making informed economic decisions. Thus, managers' utilise financial statement as instruments to report on their stewardship (Chadegani, Mohamed, & Jari, 2011). They provide information on the financial position, performance and changes in financial position of an entity (International Accounting Standards Board [IASB] Framework, 2005). The IASB Framework lists the following 'principal classes' of financial statement users: present and potential investors and their advisors; employees; suppliers and other trade creditors; customers; governments and their agencies; and, the general public (IASB, 2005). The directors are responsible for the preparation and presentation of financial statements in accordance with International Financial Reporting Standards (IFRS) or similar standards (Olowookere & Inneh, 2016). In the context of modern corporations, these persons are referred to as managers who are distinct from the owners (shareholders).

The regulations of several countries, allow companies to issue financial statements after certification by external auditors (Abernathy, Barnes, Stefaniak, & Weisbarth, 2017). In Nigeria, Section 357 (1) of the Companies and Allied Matters' Act (2004) Cap C20, Laws of the Federal Republic of Nigeria states that:

> Every company shall at each annual general meeting appoint an auditor or auditors to audit the financial statements of the company and to hold office from the conclusion of that, until the conclusion of the next, annual general meeting.

Auditing can be defined as "the independent examination of the financial statements of an organization with a view to expressing an opinion on whether these statements present a true and fair view and comply with relevant statutes and the IFRSs" (Aguolu, 2008). In the context of modern corporations, auditing of financial statements is usually conducted by individuals who are referred to as 'external auditors'. An external auditor is an independent examiner that examines whether financial statements present a true and fair view (Rittenberg, Schwieger, & Johnstone, 2008). In Nigeria, audit services are provided and shared between Big 4 and non-Big 4 audit firms. It is estimated that over 2,000 audit firms currently supply audit services to domestic listed and unlisted companies in Nigeria (World Bank, 2011).



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The timeliness in publishing financial statements is a significant factor which affects the usefulness of information available to external users for decision making (Al-Ajmi, 2008; Al-Ghanem & Hegazy, 2011). Timeliness is one of the most important characteristics of financial accounting information (Soltani, 2002). Timeliness is a "way of reducing information asymmetry by improving pricing of securities, and by mitigating insider trading, leaks, and rumors in the market, and reducing risk of spreading rumors on the companies' health conditions" (Sakka & Jarboui, 2016, p. 1).

The delay in publication of corporate financial statements may affect the usefulness of the information. There is vast evidence that "the longer the period between year-end and publication of the annual report, the higher the chances that the information would be leaked to some interested investors" (Abdulla, 1996; Financial Accounting Standards Board [FASB], 2000). The timeliness of audited financial statements improves economic decision-making, decreases information asymmetry and improves stock market efficiency (Jaggi & Tsui, 1999; Leventis, Weetman, & Caramanis, 2005; Owusu-Ansah & Leventis, 2006). Lee, Mande, and Son (2009) observed that audit report lags are directly associated with audit efficiency and the timeliness of companies' announcements of earnings.

However, agency theory postulates that separation of ownership and control in corporations creates a potential conflict between agents (managers) and principals (owners) (Hassan, 2016). This is because such agents may exploit their positions and engage in self-seeking activities at the expense of the owners'. Thus, audited financial statements serve as a useful yardstick for monitoring the activities of managers and reducing information asymmetry between both parties. However, the audit report lag is "the single most important determinant affecting the timeliness of release of financial statements" (Chan, Luo, & Mo, 2016). Bamber, Bamber, and Schoderbek (1993, p.15) observed that "delayed disclosure of financial information may encourage certain corrupt investors to acquire costly private pre-disclosure information and thus exploiting their private information at the expense of the 'less informed' investors".



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Prior studies in developed countries have provided empirical evidence that audit report lag is the most influential factor in the audit of financial statements (Al-Sehali & Spear, 2004). Despite the plethora of studies on determinants of audit report lag in both developed and developing countries. There is still a lacuna on studies that have used periods following the adoption of IFRS in Nigeria. Ilaboya and Iyafekhe (2014) studied a sample of forty firms from 2007 to 2011; while, Azubike and Aggreh (2014) focused on company size, profitability, complexity and audit firm type from 2010 to 2012. The study therefore attempts to fill the gap in time lag with reference to time periods not previously covered in prior studies. Thus, the study which has been conducted in an economically and culturally different context from prior studies is expected to contribute to the present literature on audit report timeliness.

Against this backdrop, this study examines the determinants of audit report lag of quoted manufacturing firms in Nigeria. The study formulates the following hypotheses in the null form as follows:

$Ho_1$: There is no significant effect of audit tenure on audit report timeliness of quoted manufacturing firms in Nigeria.

$Ho_2$: There is no significant effect of client size on audit report timeliness of quoted manufacturing firms in Nigeria.

$Ho_3$: There is no significant effect of board size on audit report timeliness of quoted manufacturing firms in Nigeria.

$Ho_4$: There is no significant effect of audit firm size on audit report timeliness of quoted manufacturing firms in Nigeria.

$Ho_5$: There is no significant effect of board independence on audit report timeliness of quoted manufacturing firms in Nigeria.

$Ho_6$: There is no significant effect of CEO Duality on audit report timeliness of quoted manufacturing firms in Nigeria.

## 2. Review of Related Literature

### 2.1 Conceptual Framework

#### 2.1.1 Audit Report Lag (ARL)

According to Durand (2019) audit report lag (ARL) is the number of days from a company's fiscal year-end to the date of its auditor's report. ARL is to the time period between the end



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of a company's fiscal year and the date indicated in the independent auditor's report (Lee, Mande, & Son, 2009). Thus, ARL refers to the duration of the completion of an audit of a company's financial statements (Wiyantoro & Usman, 2018). ARL is one of few externally observable audit output variables that allow outsiders to gauge audit efficiency (Bamber, Bamber, & Schoderbek, 1993) and an important input for investment decision-making (Habib, Bhuiyan, Huang, & Miah, 2019). The length of time taken by auditors to execute an audit may likely have an effect on the timeliness with which audited financial statements are released to the users (Almosa & Alabbas, 2008).

Habib and Bhuiyan (2011) divide audit report delay into three parts: *Preliminary lag*, is the time interval between the date of the end of the financial year to the date of receipt of the preliminary financial report by the capital market; *Auditor's signature lag*, is the time interval between the date of the end of the financial year to the date indicated in the independent auditor's report, *Total lag*, is the time interval between the date of the end of the financial year to the date of receipt of the financial statements of the publication by the capital market.

The study by Blankley, Hurtt, and MacGregor (2014), found that compared to non-restating firms, firms that eventually restate their financial statements have longer abnormal audit report lags.

### 2.1.2 Audit Tenure and Audit Report Timeliness

Audit tenure refers to the duration of time an audit firm is engaged by a particular client. Lee, Mande, and Son (2009), investigated whether ARLs are influenced by auditor tenure and the provision of non-audit services by an external auditor. The results showed that both auditor tenure and non-audit services were significantly associated with ARLs. With regard to auditor tenure, they showed that ARLs decline as auditor tenure lengthens, indicating that auditors with long tenure are able to audit their clients more efficiently.

### 2.1.3 Client Size and Audit Report Timeliness

Client size has been widely used to investigate delays in publishing annual reports (Alsmady, 2018). Several proxies have been used to measure client size; such as, value of total assets, total sales, market capitalization, and number of employees (Septiyan & Puspitasari, 2017). Ghazali (2007) argued that larger companies are more concerned about the information



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disclosure. Ezat and El-Masry (2008) and Wallace, Naser, and Mora (1994) documented a positive effect of company size on financial reporting disclosure. A meta-analysis conducted by Durand (2019), found that audit report lag decreased as client size increased.

### 2.1.4 Board Size and Audit Report Timeliness

Board size refers to the total number of active directors on the board of a publicly quoted company. Hassan (2016) found a positive association between board size and ARL. According to Dimitropoulos and Asteriou (2010) one major disadvantage associated with larger boards is the difficulty in communication/coordination which renders them less efficient in monitoring prompt reporting of financial statements than small board. In addition, smaller board may be less encumbered with bureaucratic problem, more functional and more able to provide better financial reporting oversight (Ilaboya & Iyafekhe, 2014).

### 2.1.5 Audit Firm Size and Audit Report Timeliness

The big four audit firm comprises of Klynveld Peat Marwick Goerdeler (KPMG), Price Waterhouse Cooper (PCW), Ernst & Young (E&Y), and Deloitte Touche Thomatsu (Deloitte). Studies have shown that large and internationally affiliated audit firms conduct their audit assignments relatively faster than smaller firms (Abdulla, 1996; Al-Ajmi, 2008; Che-Ahmad & Abidin, 2008; Shukeri & Nelson, 2011). Rusmin and Evans (2017) using a sample of firms from Indonesia showed that Big-4 auditors perform significantly faster audit than their non-Big 4 counterparts. Leventis, Weetman, and Caramanis (2005) using a sample of firms from the Athens Stock Exchange showed that the audit report lag was reduced by appointing international audit firms.

### 2.1.6 Board Independence and Audit Report Timeliness

Board independence is measured based on the proportion of non-executive directors to the total directors (Abdelsalam & Street, 2007). Prior studies that examine the relationship between board composition and disclosure present mixed findings on the subject. Some studies show a significant relationship which is either positive (Abdelsalam & Street, 2007; Afify, 2009; Azubike & Aggreh, 2014), or negative (such as Eng & Mak, 2003). And yet others do not find any significant relationship (e.g., Haniffa & Cooke, 2002).



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### 2.1.7 CEO Duality and Audit Report Timeliness

This refers to a situation where the Chief Executive Officer (CEO) is also the Chairman of the Board. In line with agency theory, the separation of the two roles provides checks and balances over management's performance (Haniffa & Cooke, 2002). Sakka and Jarboui (2016) observed that a combination of both roles results to a high concentration of power likely to compromise the board's independence. Studies have shown mixed findings on the effect of CEO Duality on audit report timeliness. Laksmana (2008), Forker (1992) found evidence that CEO duality negatively affects financial reporting disclosure.

## 2.2 Theoretical Framework

### 2.2.1 Agency Theory

The study is anchored on the 'agency theory'. The agency paradigm was first encapsulated by Ross in the 70's (Ross, 1973); and, can be traced to early works of Berle and Means (1932), that observed that the separation of ownership and control in modern corporations creates potential conflicts between shareholders and managers. It was originally associated to agency costs by Jensen and Meckling (1976). They defined an agency relationship as a "contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent" (Jensen & Meckling, 1976). The principal is the party which gives the mandate to the agent to perform services on behalf of the principal; while, the agent is the mandated (Rubianto, 2017). The theory explains such situations whereby "one individual (called the agent) is engaged by another individual (called the principal) to act on his/her behalf based upon a designated fee schedule" (Namazi, 2012, p. 40). In an agency relationship, if both parties are utility maximizers, there is a reason to believe that the agent will not always act in the best interests of the principal.

There are two problems that usually occur when one party (the principal) delegates work to another (agent). Firstly, is the conflict of goals between the two parties and costs associated with the minimisation of such discrepancy; and, secondly, the problem of risk sharing when the risk preference of both parties differs (Eisenhardt, 1989). In a company's environment, DeFond (1992) identified two features of the agency problem namely "[…] (1) the divergence in preferences of the manager and owner with respect to the manager's actions, and (2), the imperfect observability of the managers' actions by the owner" (DeFond, 1992,



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p. 21). This often leads to three types of conflict: The first involves conflict between the company's owners and its managers. The second involves conflict between the majority or controlling interest shareholders and minority or non-controlling shareholders. The third involves conflict between the company and the other parties who have an interest in the company, such as creditors, employees, customers, etc. (Rachagan & Satkunasingam, 2009). These three types of conflict usually lead to two problems: *firstly*, costs associated with minimisation of the conflict of goals between the principal and agent; and, *secondly*, the problem of risk sharing when the risk preference of parties differ (Eisenhardt, 1989). Jensen and Meckling (1976) define agency costs as the sum of the monitoring expenditures by the principal, the bonding expenditures by the agent, and the residual loss.

### 2.3 Empirical Review

#### 2.3.1 Studies in Nigeria

Ilaboya and Iyafekhe (2014) conducted a study titled 'Corporate governance and audit report lag in Nigeria'. They specifically examined the effect of board size, board independence, audit firm type, audit committee size, audit committee independence and firm size on audit report lag. The sample comprised of forty (40) manufacturing firms listed on the Nigerian Stock Exchange. The study relied on secondary data obtained from financial statements and accounts for the financial years 2007 to 2011. The data was analyzed using Ordinary Least Squares (OLS). The results showed that board size, audit firm type, firm size had a significant effect; while, board independence and audit committee size had no significant effect on audit report lag. Board independence, firm size and board size were negative.

Azubike and Aggreh (2014) undertook a study titled 'Corporate governance and audit delay in Nigerian quoted companies'. They specifically examined the effect of company size, profitability, complexity and audit firm type on audit report timeliness. The study utilised the cross-sectional research design. The study relied on secondary data; obtained from annual reports and accounts of the sampled companies. The duration of the study was from 2010 to 2012. The study utilised Ordinary Least Squares for data analysis. The results of the study showed that board size and board independence had a significant positive effect on audit report lag; however, audit firm type had a non-significant negative effect on audit report lag.



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### 2.3.2 Other Studies

Alsmady (2018) undertook a study titled 'The effect of board of directors' characteristics and ownership type on the timeliness of financial reports'. The sample comprised of sixty eight (68) firms listed on the Amman Stock Exchange (ASE). The study relied on secondary data; obtained from annual reports and accounts for the period 2011 to 2015. The data was analysed using multiple regression technique. The results showed that CEO duality, board diversity and proportion of non-executive directors had positive effect; while, client size and age had negative effect on timeliness of financial reporting. However, boards with less than eight members showed a negative effect; while, those with more than eight members had a positive effect. Furthermore, the second model which examined ownership type showed that managerial ownership had a non-significant negative effect; while, foreign ownership had a positive effect.

Lirungan and Harindahyani (2018) undertook a study titled 'The effect of corporate governance on audit report timeliness in Indonesia'. The sample comprised of 1,261 firm year observation of public companies listed on the Indonesia Stock Exchange (IDX) from 2013 to 2016. The study relied on secondary data; obtained from Annual Report and Financial Statements. The data was analysed using multiple linear regression. The results showed that that board independence has a positive significant association; while, audit committee size, audit committee meeting, auditor type, auditor opinion, and firm performance had a negative significant association with audit report timeliness. However, audit committee qualification and audit tenure showed no significant association with audit report timeliness.

Septiyan and Puspitasari (2017) conducted a study titled 'Do company's attributes and audit related factors affect timeliness of financial reporting?'. The sample comprised of eighty (80) companies listed on the Indonesian Stock Exchange. The study relied on secondary data; obtained from financial statements from the period 2012 to 2015. The data was analysed using multiple regression technique. The results showed that profitability and audit opinion had negative significant effect on timeliness of financial reporting; while, audit firm had a positive significant effect. However, company size had a negative insignificant effect on timeliness of financial reporting.



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Rusmin and Evans (2017) conducted a study titled 'Audit quality and audit report lag: Case of Indonesian listed companies'. They specifically examined two dimensions of audit quality: auditor industry specialization and auditor reputation. The sample comprised of non-financial companies listed on the Indonesian Stock Exchange. The study relied on secondary data obtained for the financial years 2010 and 2011. The study employs multiple regression technique in analysing the data. The results showed that there is a significant negative association between industry-specialist auditors and audit report timeliness. Also, Big 4 auditors perform significantly faster audit work than non-Big 4 firms. In addition, they found a statistical and significant relationship between auditing complexity, profitability, auditors' business risk, and industry classification and audit report lag.

Rubianto (2017) conducted a study titled 'The analysis on factors affecting audit delay on manufacturing companies listed in Indonesia Stock Exchange'. The sample comprised of one hundred and twenty seven (127) manufacturing firms listed on the Indonesian Stock Exchange. The study relied on secondary data; obtained from the financial statements of the companies for the years 2014 and 2015. The data was analysed using multiple linear regression. The results showed that Big 4, profitability and firm size had negative effect on audit delay; while, complexity proxied as number of subsidiaries showed a positive non-significant effect in both years. Solvency had a negative effect in 2014; and, a positive effect in 2015.

Sakka and Jarboui (2016) undertook a study titled 'Audit reports timeliness: Empirical evidence from Tunisia'. The sample consisted of 28 companies listed on the Tunisian Stock Exchange. The study relied on secondary data; obtained from published financial statements, official bulletins available from the prospectus found at the Financial Market Council of Tunis and on the BVMT websites. The study duration was from the period 2006 to 2013. The data was analysed using multiple regression technique. The results showed that board size, board independence and client size had negative significant relationship with audit lag; while, CEO Duality and ownership concentration had positive significant relationship with audit lag.

Ahmed and Che-Ahmad (2016) conducted a study titled 'Effects of board size, board committees characteristics and audit quality on audit report lags'. The sample comprised of



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fourteen (14) banks listed on the Nigerian Stock Exchange. The study relied on secondary data; obtained from annual reports and accounts from 2008-2012. The study employed Ordinary Least Squares (OLS) to validate the hypotheses. The results showed that audit quality has a significant impact on ARL. Other variables, such as, board size, board meetings, total assets, and board gender have a significant positive association with ARL. However, the study found no significant relationship between audit committee size, risk management committee size and board expertise on ARL.

Hassan (2016) undertook a study titled 'Determinants of audit report lag: evidence from Palestine'. The sample comprised of forty six (46) companies listed on Palestine Stock Exchange (PSE). The study relied on secondary data collected from annual reports for the year 2011. The data was analysed using multiple regression analysis. The results showed that audit report lag was affected by board size, corporate size, status of audit firm, company complexity, existence of audit committee, and ownership dispersion.

Al-Qublani (2016) undertook a study titled 'Audit committee characteristics and audit report lag in Malaysia'. The sample comprised of one hundred and thirty nine (139) firms listed on Bursa Malaysia. The study relied on secondary data; collected from annual reports for the financial year 2015. The study employed descriptive analysis and regression analysis to validate the hypotheses. The results showed that chairman of audit committee with accounting expertise, audit committee size, frequency of meetings of audit committee, firm size, leverage, and profitability were significantly associated with audit report lag. However, the other five variables: audit committee independence, audit committee overlap, tenure of chairman of audit committee, auditor type and industry type were insignificantly related with audit report lag.

Alkhatib and Marji (2012) undertook a study titled 'Audit reports timeliness: Empirical evidence from Jordan'. The sample comprised 137 firms listed on the Jordanian Stock Exchange. The study relied on secondary data. The data was analysed using multiple regression technique. The results showed that for the services sector profitability ratio, type of audit firm, and company size was negatively correlated with audit reports timeliness; while, leverage was significant. Comparatively, for the industrial sector profitability ratio,



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type of audit firm, company size and leverage were all negatively correlated with audit timeliness.

Apadore (2012) undertook a study titled 'Determinants of audit report lag and corporate governance in Malaysia'. The sample comprised of one hundred and eighty (180) companies listed at Bursa Malaysia for 2009 and 2010. The study relied on secondary data; obtained from annual reports and accounts. The data was analysed using multiple regression technique. The results showed that audit committee size, ownership concentration, organization size and profitability are significantly associated with audit report lag. However the other six variables (audit committee independence, meetings, expertise and types of auditors have insignificant relationship with audit report lag

Nelson and Shukeri (2011) undertook a study titled 'Corporate governance and audit report timeliness: evidence from Malaysia'. The corporate governance characteristics examined were board independence, audit committee size, audit committee meetings and audit committee qualifications. The sample comprised of seven hundred and three (703) companies listed on Bursa Malaysia for the year 2009. The study relied on secondary data; obtained from annual reports and accounts. The study employs regression analysis to analyse the data. The results showed that audit report timeliness was influenced by audit committee size, auditor type, audit opinion and firm profitability. However, no evidence was found to support the effect of board independence, audit committee meetings and audit committee qualifications on audit report lag.

Al-Ghanem and Hegazy (2011) undertook a study titled 'An empirical analysis of audit delays and timeliness of corporate financial reporting in Kuwait'. The sample comprised of one hundred and forty nine (149) and one hundred and seventy seven (177) companies listed on the Kuwait stock market in 2006 and 2007. The study relied on secondary data. The data was analysed using multiple regression technique. The results showed that company size negatively correlates with audit delay in the study period. Other variables, such as industry classification, leverage, percentage change in earning per share, type of auditors, and liquidity showed no significant correlation with audit delays. Liquidity, leverage, and type of auditors



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were negatively correlated with audit delay in 2006 for the first two variables and in 2007 for the type of auditors.

Hashim and Abdul-Rahman (2010) conducted a study titled 'Board independence, board diligence, board expertise and impact on audit report lag in Malaysian market'. They specifically studied three characteristics of board of directors, i.e., board independence, board diligence and board expertise. The sample comprised of two hundred and eighty eight (288) companies listed on Bursa Malaysia. The study relied on secondary data; obtained from financial statements for the period 2007 to 2009. The data were analysed using multiple regression. The results showed a significant negative relationship between board diligence and audit report lag. However, the study provided no evidence of a link between board independence and board expertise on audit report lag.

Ahmad and Kamarudin (2003) undertook a study titled 'Audit delay and the timeliness of corporate reporting: Malaysian evidence'. The sample comprised of one hundred (100) companies listed in Kuala Lumpur Stock Exchange during the period 1996-2000. They formulated eight hypotheses, relating to company size, industry classification, sign of income, extraordinary item, audit opinion, auditor, year-end and risk are tested in this study. The results from t-test of differences, chi-square test of independent and ordinary leas square regression (OLS) mostly support the alternate hypotheses except for extraordinary items and company size. The major findings were that audit delay is significantly longer for company that (1) non-financial industry, (2) receive other than unqualified audit opinions, (3) have other than 31 December as financial year end, (4) audited by non-big five, (5) incurred negative earnings and (6) have higher risk.

Jaggi and Tsui (1999) conducted a study titled 'Determinants of audit report lag: further evidence from Hong Kong'. The sample comprised of 393 Hong Kong companies from the year 1991 to 1993. The study utilised secondary data. The data was analysed using multiple regression technique. The results showed that there is a positive association between audit report lag and financial risk index, suggesting that companies with weak financial condition are associated with longer audit delays. The results also showed that firms audited by audit



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firms using the structured audit approach have longer audit delays and larger companies appear to provide motivation for shorter audit delays.

## 3. Design and Methodology

The study adopts the *ex post facto* research design. This design is considered suitable because the researcher does not have direct control of independent variables because their manifestations have already occurred. The independent variables are studied in retrospect for seeking possible and plausible relations and the likely effects that changes in independent variables produce on a single or a set of dependent variables. The population of the study comprised quoted manufacturing companies on the Nigerian Stock Exchange (NSE) as at 31st December, 2018. The companies are classified under eleven sectors, such as: Agriculture; Conglomerates; Construction/Real Estate; Consumer Goods; Financial Services; Healthcare; Information & Communications Technology(ICT); Industrial Goods; Natural Resources; Oil & Gas; and, Services (NSE, 2018). The sample for the study was restricted as sixty-six (66) firms; based on a purposive sampling technique. The decision was premised on the classification of the firms as manufacturing (based on the nature and description of activities) as shown on the Nigerian Stock Exchange (NSE) website. The focus on non-financial firms was to ensure uniformity and avoid the risk of bias from different level of regulations associated with different sectors of the stock exchange. The companies included in the sample are shown in detail in the Table below:

**Table 1: Firms in the various sectors that comprise the sample**

| S/No | Sector | Number of firms |
|---|---|---|
| 1. | Agriculture | 5 |
| 2. | Consumer Goods | 22 |
| 3. | Conglomerates | 6 |
| 4. | Healthcare | 11 |
| 5. | ICT | 7 |
| 6. | Industrial Goods | 15 |
| | **Total** | **66** |

Source: The Nigerian Stock Exchange Website (2018)

The study is based on secondary data. The secondary data were obtained from selected sources that includes annual financial reports and accounts of the individual companies downloaded from the websites of the companies. The Statement of Financial Position



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provided information on assets and liabilities; and, the Statement of Comprehensive Income provided information on revenue and expenses. The data constituted a panel data set. One advantage of using panel data is that it can capture heterogeneity (i.e., time-invariant entity-specific characteristics) across groups (Greene, 2002). The study involves a series of analyses. The hypothesis analysis consisted of (Rubianto, 2017, p. 208):

1. The Coefficient of Determination: This is used to measure how far the ability of the model can explain the variation in the dependent variable.
2. Partial Hypothesis test or T test: This is used to test whether the independent variables have a partial effect on the dependent variable. The hypothesis was tested using a significance level ($\alpha$) of 5 percent or 0.05.
3. Simultaneous Hypothesis Testing or F Test: This is used to examine whether all the independent variables included in the regression model that had simultaneous effects on the dependent variable

### 3.1 Model Specification

The following empirical models were specified and tested econometrically in the study:

$$ARL = \alpha_i + \beta_1 AT + \beta_2 \text{Firm Age} + \beta_3 \text{Audit Fee} + \beta_4 \text{Expected Growth} + \beta_5 \text{Leverage} + \beta_6 ROA + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots (1)$$

$$ARL = \alpha_i + \beta_1 CS + \beta_2 \text{Firm Age} + \beta_3 \text{Audit Fee} + \beta_4 \text{Expected Growth} + \beta_5 \text{Leverage} + \beta_6 ROA + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots (2)$$

$$ARL = \alpha_i + \beta_1 BS + \beta_2 \text{Firm Age} + \beta_3 \text{Audit Fee} + \beta_4 \text{Expected Growth} + \beta_5 \text{Leverage} + \beta_6 ROA + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots (3)$$

$$ARL = \alpha_i + \beta_1 AFS + \beta_2 \text{Firm Age} + \beta_3 \text{Audit Fee} + \beta_4 \text{Expected Growth} + \beta_5 \text{Leverage} + \beta_6 ROA + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots (4)$$

$$ARL = \alpha_i + \beta_1 BIND + \beta_2 \text{Firm Age} + \beta_3 \text{Audit Fee} + \beta_4 \text{Expected Growth} + \beta_5 \text{Leverage} + \beta_6 ROA + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots (5)$$

$$ARL = \alpha_i + \beta_1 CEOD + \beta_2 \text{Firm Age} + \beta_3 \text{Audit Fee} + \beta_4 \text{Expected Growth} + \beta_5 \text{Leverage} + \beta_6 ROA + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots (6)$$

Where:

AT - Audit Tenure
CS - Client Size
BS - Board Size
BIND - Board Independence
CEOD - CEO Duality



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**Table 2: Description of variables**

| Variable | Description | Source |
|---|---|---|
| Audit report timeliness | Number of days between the fiscal year-end and the external auditor's signature date | Sakka and Jarboui (2016) |
| Audit tenure | 1: For three years of audit tenure or more<br>0: Otherwise | Hakim and Omri (2010) |
| Client size | Natural logarithm of Property, Plant and Equipment (Ending) | Several authors |
| Board size | Number of directors on the board | Sakka and Jarboui (2016) |
| Audit firm size | **Dichotomous variable**<br>1: If a firm is audited by Big 4 audit firm<br>0: If otherwise | Kanagaretnam, Krishnan, Lobo, and Mathieu (2011),<br>Chen, Chen, Lobo, and Wang (2011) |
| Board independence | Number of outside directors to total of directors within the board | Sakka and Jarboui (2016) |
| CEO Duality | **Dichotomous variable**<br>1: If there is a duality function of the CEO<br>0: If otherwise | Sakka and Jarboui (2016) |
| Leverage | Measured as the ratio of debt to equity as at the year end. (Debt/Equity) | Several authors |
| Firm age | Length of years in operation from date of incorporation | Several authors |
| Sales growth | Measured as ratio of change in revenue and previous year revenue | Several authors |
| Audit fee | Sum of amount for Auditors remunerations/fees for the period. | Several authors |
| ROA | Ratio of earnings after interest, tax, and depreciation to total assets | (King & Lenox, 2002). |

Source: Authors' Compilation, 2019.

## 4. Data Presentation and Results

### 4.1 Descriptive Statistics

**Table 3: Summary statistics of variables**

| | N Statistic | Mean Statistic | Std. Deviation Statistic |
|---|---|---|---|
| **CEO Duality** | 462 | .58 | .493 |
| **AFS** | 462 | .65 | .476 |
| **Board size** | 462 | 8.491 | 2.6063 |
| **INED** | 462 | 4.766 | 2.0812 |
| **Firm Age** | 462 | 43.015 | 25.0716 |
| **Audit Tenure** | 462 | .944 | .2307 |
| **BIND** | 462 | .56 | .17 |
| **Audit Fee** | 462 | 49262451.98 | 193510182.44 |
| **Sales Growth** | 462 | 486.84 | 4789.33 |
| **Leverage** | 462 | 1.1744479 | 5.00410790 |
| **ROA** | 462 | 1.0169921 | 9.69383270 |
| **CS** | 457 | 9.7259 | .90563 |

Source: SPSS Ver. 23



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## 4.2 Test of Hypotheses

### 4.2.1 Hypothesis One

Ho: There is no significant effect of audit tenure on audit report timeliness of quoted manufacturing firms in Nigeria.

**Table 4: Model summary of hypothesis one**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .338[a] | .114 | .102 | 32.5424 |

a. Predictors: (Constant), ROA, Expected Growth, Audit Fee, Audit Tenure, Leverage, Firm Age

Source: SPSS Ver. 23

**Table 5: ANOVA output of hypothesis one**

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 61956.558 | 6 | 10326.093 | 9.751 | .000[b] |
| | Residual | 481847.955 | 455 | 1059.006 | | |
| | Total | 543804.513 | 461 | | | |

a. Dependent Variable: ARL (Days)
b. Predictors: (Constant), ROA, Expected Growth, Audit Fee, Audit Tenure, Leverage, Firm Age

Source: SPSS Ver. 23

**Table 6: Coefficients of model one**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 78.571 | 6.951 | | 11.303 | .000 |
| | Audit Tenure | -1.283 | 6.582 | -.009 | -.195 | .846 |
| | Firm Age | -.171 | .061 | -.125 | -2.805 | .005 |
| | Audit Fee | 5.517E-8 | .000 | .311 | 7.022 | .000 |
| | Expected Growth | -8.707E-5 | .000 | -.012 | -.275 | .784 |
| | Leverage | -.405 | .304 | -.059 | -1.330 | .184 |
| | ROA | -.179 | .157 | -.051 | -1.142 | .254 |

a. Dependent Variable: ARL (Days)

Source: SPSS Ver. 23

The Tables above shows the multiple regression output for hypotheses one. The model showed an R squared value of .114; and, Adjusted R squared value of .102; thus, the model explains approximately 10.2% variation in the dependent variable. The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) showed a value of 9.751; p value <.05; therefore, the hypothesis that all the regression coefficients are zero is rejected. The coefficients Table above revealed that, the beta coefficient of our variable of interest representing hypotheses one is -1.283 and prob. = .846 i.e. ($p$>.05), confirming that audit tenure has a negative but not statistically significant relationship with audit report timeliness; thus, the alternate hypothesis is rejected and null accepted. Therefore,



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there is no significant effect of audit tenure on audit report timeliness of quoted manufacturing firms in Nigeria.

### 4.2.2 Hypothesis Two

Ho: There is no significant effect of client size on audit report timeliness of quoted manufacturing firms in Nigeria.

**Table 7: Model summary of hypothesis two**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .428[a] | .183 | .162 | 32.6744 |

a. Predictors: (Constant), CS, Expected Growth, ROA, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 8: ANOVA output of hypothesis two**

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 62068.734 | 6 | 10344.789 | 9.690 | .000[b] |
| | Residual | 480428.124 | 450 | 1067.618 | | |
| | Total | 542496.858 | 456 | | | |

a. Dependent Variable: ARL (Days)
b. Predictors: (Constant), CS, Expected Growth, ROA, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 9: Coefficients of model two**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 75.586 | 17.592 | | 4.297 | .000 |
| | Firm Age | -.180 | .063 | -.129 | -2.861 | .004 |
| | Audit Fee | 5.452E-8 | .000 | .307 | 6.580 | .000 |
| | Expected Growth | .000 | .000 | -.014 | -.321 | .748 |
| | Leverage | -.409 | .308 | -.060 | -1.327 | .185 |
| | ROA | -.180 | .158 | -.051 | -1.142 | .254 |
| | CS | .233 | 1.829 | .006 | .127 | .899 |

a. Dependent Variable: ARL (Days)

Source: SPSS Ver. 23

The Tables above shows the multiple regression output for hypotheses two. The model showed an R squared value of .183; and, Adjusted R squared value of .162; thus, the model explains approximately 16.2% variation in the dependent variable. The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) showed a value of 9.690; p value <.05; therefore, the hypothesis that all the regression coefficients are zero is rejected. The coefficients Table above revealed that, the beta coefficient of our variable of interest representing hypotheses two is .233 and prob. = .899 i.e. ($p$>.05), confirming that client size has a positive but not statistically significant relationship with audit report timeliness; thus, the alternate hypothesis is rejected and null accepted. Therefore,



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there is no significant effect of client size on audit report timeliness of quoted manufacturing firms in Nigeria.

### 4.2.3 Hypothesis Three

Ho: There is no significant effect of board size on audit report timeliness of quoted manufacturing firms in Nigeria.

**Table 10: Model summary of hypothesis three**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .434[a] | .188 | .172 | 32.5426 |

a. Predictors: (Constant), Board size, Expected Growth, ROA, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 11: ANOVA output of hypothesis three**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 61948.849 | 6 | 10324.808 | 9.749 | .000[b] |
| | Residual | 481855.664 | 455 | 1059.023 | | |
| | Total | 543804.513 | 461 | | | |

a. Dependent Variable: ARL (Days)
b. Predictors: (Constant), Board size, Expected Growth, ROA, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 12: Coefficients of model three**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 78.202 | 5.723 | | 13.664 | .000 |
| | Firm Age | -.170 | .061 | -.124 | -2.776 | .006 |
| | Audit Fee | 5.534E-8 | .000 | .312 | 6.949 | .000 |
| | Expected Growth | -8.644E-5 | .000 | -.012 | -.273 | .785 |
| | Leverage | -.411 | .305 | -.060 | -1.348 | .178 |
| | ROA | -.181 | .157 | -.051 | -1.155 | .249 |
| | Board size | -.105 | .597 | -.008 | -.175 | .861 |

a. Dependent Variable: ARL (Days)

Source: SPSS Ver. 23

The Tables above shows the multiple regression output for hypotheses three. The model showed an R squared value of .188; and, Adjusted R squared value of .172; thus, the model explains approximately 17.2% variation in the dependent variable. The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) showed a value of 9.749; p value <.05; therefore, the hypothesis that all the regression coefficients are zero is rejected. The coefficients Table above revealed that, the beta coefficient of our variable of interest representing hypotheses three is -.105 and prob. = .861 i.e. ($p$>.05),



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confirming that board size has a negative but not statistically significant relationship with audit report timeliness; thus, the alternate hypothesis is rejected and the null accepted. Therefore, there is no significant effect of board size on audit report timeliness of quoted manufacturing firms in Nigeria.

### 4.2.4 Hypothesis Four

Ho: There is no significant effect of audit firm size on audit report timeliness of quoted manufacturing firms in Nigeria.

**Table 13: Model summary of hypothesis four**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .381[a] | .145 | .134 | 31.9614 |

a. Predictors: (Constant), AFS, Expected Growth, ROA, Leverage, Audit Fee, Firm Age

Source: SPSS Ver. 23

**Table 14: ANOVA output of hypothesis four**

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 79006.927 | 6 | 13167.821 | 12.890 | .000[b] |
| | Residual | 464797.586 | 455 | 1021.533 | | |
| | Total | 543804.513 | 461 | | | |

a. Dependent Variable: ARL (Days)
b. Predictors: (Constant), AFS, Expected Growth, ROA, Leverage, Audit Fee, Firm Age

Source: SPSS Ver. 23

**Table 15: Coefficients of model four**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 72.016 | 3.314 | | 21.728 | .000 |
| | Firm Age | -.259 | .064 | -.189 | -4.074 | .000 |
| | Audit Fee | 5.033E-8 | .000 | .284 | 6.453 | .000 |
| | Expected Growth | .000 | .000 | -.022 | -.509 | .611 |
| | Leverage | -.256 | .301 | -.037 | -.851 | .395 |
| | ROA | -.110 | .155 | -.031 | -.709 | .479 |
| | AFS | 14.024 | 3.429 | .194 | 4.090 | .000 |

a. Dependent Variable: ARL (Days)

Source: SPSS Ver. 23

The Tables above shows the multiple regression output for hypotheses four. The model showed an R squared value of .145; and, Adjusted R squared value of .134; thus, the model explains approximately 13.4% variation in the dependent variable. The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) showed a value of 12.890; p value <.05; therefore, the hypothesis that all the regression coefficients are



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zero is rejected. The coefficients Table above revealed that, the beta coefficient of our variable of interest representing hypotheses four is 14.024 and prob. = 0.000 i.e. ($p$<.05), confirming that audit firm size has a positive and statistically significant relationship with audit report timeliness; thus, the alternate hypothesis is accepted and null rejected. Therefore, there is a significant effect of audit firm size on audit report timeliness of quoted manufacturing firms in Nigeria.

### 4.2.5 Hypothesis Five

Ho: There is no significant effect of board independence on audit report timeliness of quoted manufacturing firms in Nigeria.

**Table 16: Model summary of hypothesis five**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .348[a] | .121 | .109 | 32.4113 |

a. Predictors: (Constant), BIND, Expected Growth, ROA, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 17: ANOVA output of hypothesis five**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 65829.882 | 6 | 10971.647 | 10.444 | .000[b] |
| | Residual | 477974.631 | 455 | 1050.494 | | |
| | Total | 543804.513 | 461 | | | |

a. Dependent Variable: ARL (Days)
b. Predictors: (Constant), BIND, Expected Growth, ROA, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 18: Coefficients of model five**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 67.440 | 5.996 | | 11.248 | .000 |
| | Firm Age | -.172 | .061 | -.126 | -2.839 | .005 |
| | Audit Fee | 5.300E-8 | .000 | .299 | 6.714 | .000 |
| | Expected Growth | -7.993E-5 | .000 | -.011 | -.253 | .800 |
| | Leverage | -.373 | .303 | -.054 | -1.230 | .219 |
| | ROA | -.196 | .156 | -.055 | -1.255 | .210 |
| | BIND | 17.812 | 9.228 | .086 | 1.930 | .054 |

a. Dependent Variable: ARL (Days)

Source: SPSS Ver. 23

The Tables above shows the multiple regression output for hypotheses five. The model showed an R squared value of .121; and, Adjusted R squared value of .109; thus, the model explains approximately 10.9% variation in the dependent variable. The F statistic (ratio of



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the mean regression sum of squares divided by the mean error sum of squares) showed a value of 10.444; p value <.05; therefore, the hypothesis that all the regression coefficients are zero is rejected. The coefficients Table above revealed that, the beta coefficient of our variable of interest representing hypotheses five is 17.812 and prob. = 0.000 i.e. ($p$<.05), confirming that board independence has a positive and statistically significant relationship with audit report timeliness; thus, the alternate hypothesis is accepted and null rejected. Therefore, there is a significant effect of board independence on audit report timeliness of quoted manufacturing firms in Nigeria.

### 4.2.6 Hypothesis Six

$Ho_6$: There is no significant effect of CEO Duality on audit report timeliness of quoted manufacturing firms in Nigeria.

**Table 19: Model summary of hypothesis six**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .350[a] | .122 | .111 | 32.3908 |

a. Predictors: (Constant), Ceo Duality, ROA, Expected Growth, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 20: ANOVA output of hypothesis six**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 66434.297 | 6 | 11072.383 | 10.554 | .000[b] |
| | Residual | 477370.216 | 455 | 1049.165 | | |
| | Total | 543804.513 | 461 | | | |

a. Dependent Variable: ARL (Days)
b. Predictors: (Constant), Ceo Duality, ROA, Expected Growth, Leverage, Firm Age, Audit Fee

Source: SPSS Ver. 23

**Table 21: Coefficients of model six**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 74.254 | 3.431 | | 21.645 | .000 |
| | Firm Age | -.185 | .061 | -.135 | -3.036 | .003 |
| | Audit Fee | 5.213E-8 | .000 | .294 | 6.562 | .000 |
| | Expected Growth | .000 | .000 | -.019 | -.425 | .671 |
| | Leverage | -.337 | .305 | -.049 | -1.105 | .270 |
| | ROA | -.203 | .156 | -.057 | -1.296 | .196 |
| | Ceo Duality | 6.578 | 3.170 | .094 | 2.075 | .039 |

a. Dependent Variable: ARL (Days)

Source: SPSS Ver. 23



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The Tables above shows the multiple regression output for hypotheses six. The model showed an R squared value of .122; and, Adjusted R squared value of .111; thus, the model explains approximately 11.1% variation in the dependent variable. The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) showed a value of 10.554; p value <.05; therefore, the hypothesis that all the regression coefficients are zero is rejected. The coefficients Table above revealed that, the beta coefficient of our variable of interest representing hypotheses one is 6.578 and prob. = 0.000 i.e. ($p$<.05), confirming that CEO-duality has a positive and statistically significant relationship with audit report timeliness; thus, the alternate hypothesis is accepted and null rejected. Therefore, there is a significant effect of CEO Duality on audit report timeliness of quoted manufacturing firms in Nigeria.

## 5. Conclusion and Recommendations

The study concludes that audit report lag of manufacturing firms in Nigeria are influenced by several governance and firm related factors. Prior studies have established a causal link between length of time by auditors to execute an audit and the timeliness with which audited financial statements are released to the users. Anchoring the study on agency theory, the study evaluates several proxies utilised in prior studies to tackle information asymmetry between principals and agents in publicly quoted companies. The empirical results proved that both audit tenure and board size was negative and not statistically significant; while, client size was positive and also not significant. The other variables such as audit firm size, board independence, and CEO-duality were all positive and significant. Based, on these the study makes the following recommendations:

1. Audit firms are not be engaged on a one-off basis but rather for a reasonable stipulation of time usually not less than 3 years in order to fully grasp the peculiarities of the company audited. The empirical result indicates that auditors with long tenure are able to audit their clients more efficiently.
2. Client size has been widely used to investigate delays in publishing annual reports showing a positive effect on audit report timeliness, it is recommended that auditors of companies with more branches and/or sizes should conduct their audit on a period basis early before the actual year end audit. This will reduce unnecessary delay in audit reports. It is also recommended that firms employ the services of audit firms



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relative to its size; and, where appropriate the use of joint audit firms is recommended.

3. Separating the roles of CEO and Chairman of the Board: In line with agency theory, the separation of the two roles provides checks and balances over management's performance which will ultimately affect audit report timeliness. Hence it is highly recommended that there is a clear separation of the role of CEO and Chairman of the board of companies.



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