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CORPORATE GOVERNANCE AND AUDIT REPORT LAG IN NIGERIA

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Correspondence: *felix.emovon@iuokada.edu.ng*

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Felix O. Emovon[1] Mary Josiah[2] Clement Ozele[3]

[1]Postgraduate student, [2]Associate Professor, [3]Lecturer, Department of Accounting, Igbinedion University, Okada, Edo State, Nigeria

1. Email: felix.emovon@iuokada.edu.ng
2. Email: Josiah.mary@iuokada.edu.ng
3. Email: ozele.clement@iuokada.edu.ng

ABSTRACT:

This study has been carried out to investigate corporate governance and audit report lag in Nigeria. The study used ex-post factor research design. The population of the study consist of eight (8) quoted oil and gas companies on the Nigerian Exchange Group (NEG) as at 31st December 2022. Out of the eight listed oil and gas companies 7 were used as sample size due to availability of data using the purposive sampling technique. The study period is from 2012-2021. The data were collected from the annual reports and accounts of the seven (7) sampled quoted oil and gas companies on the Nigerian Exchange Group (NEG) and were analyzed using the descriptive and inferential statistics and the hypothesis were tested using panel corrected Standard Error. The results show that board of directors has positive and insignificant effect on audit report lag while audit committee size has positive and significant effect on audit report lag. We concluded that the size of the audit committee has a significant role to play in achieving early audit report lag. The study recommended that a good size and experienced individual should be encouraged to achieve a better audit report lag.

1. INTRODUCTION

In recent times, the world has witnessed the collapse of high profile companies, which has been attributed to large scale fraud by directors in connivance with auditors. Sighting the cases of Enron, Cadbury plc, WorldCom, Parmalat, Pollypeck, and many other cases too numerous to be mentioned. This wide cry brought about once more the debate for corporate governance to be in place which will ensure that companies are well managed by the directors and other management staff to whom shareholders have entrusted this function. According to Bhasin (2010), the growing number of scandals, and subsequent widespread public and media outcry, a number of governance norms, codes, best practices and standards have sprouted all over the world. The Cadbury Committee in the UK took the innovative step of responding to this outcry. The OECD's corporate governance principles and the Sarbanes-Oxley Act in the USA came after this. Ho et al. (2008) claim that management have realized the financial gains that come from helping investors understand the business and find trustworthy sources of information so they can make an educated choice. According to Habbash (2010), effective governance consists of a composed Board and a capable audit committee.

Shleifer and Vishnu (1997) define corporate governance as the ways in which suppliers of finances to corporations assure themselves of getting a return on their investment. Gillan and Starks (2000) defines corporate governance as the system of laws, rules and factors that control operations at a company. The issue of timeliness involves and demands that the management of the company who prepares the reports and the auditor who provides the audit and assurance must be thoughtful about timeliness. Orake et al., (2019) defined financial reporting timeliness as the period between an entity's accounting year end and the publication of the financial report to the users of accounting information. The author noted that audit lag is the number of days between the accounting year end and the date the external auditor signs the financial statements. Enofe et al., (2013) opined that for annual report to be relevant, the provision of information must have predictive or feedback value that information should be provided in time. However, the study was motivated by the need to bridge the research gap from numbers of empirical literatures reviewed on corporate governance and audit report lag in Nigeria. Since findings of previous empirical studies reviewed failed to use a wider time horizon, and the sector used for this sector used for this study is another unique factor. The study covered a period of 10 years (2012 - 2021) and focuses on quoted oil and gas companies in the Nigerian Exchange Group (NEG). To this end, there lies a knowledge in gap that this study requires to fill.

1.1 Objectives of the Study

The broad objective of this study is to determine and analyze the effects of corporate governance on audit report lag.

The specific objectives of this study are to:

1. examine the effects of Board of Directors on audit report lag of quoted oil and gas companies in Nigeria;
2. investigate the effect of audit committee size on audit report lag of quoted oil and gas companies in Nigeria.

1.2 Research Questions

1. What is the effect of Board of Directors on audit report lag of quoted oil and gas companies in Nigeria?
2. What is the effect of audit committee size on audit report lag of quoted oil and gas companies in Nigeria.

1.3 Research Hypotheses

H_{O1}: Board of Directors has no significant effect on audit report lag of quoted oil and gas companies of Nigeria.

H_{O2}: Audit committee size has no significant effect on audit report lag of quoted oil and gas companies in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Corporate Governance

The practices and techniques of creative accounting and fraudulent reporting contributes to the collapse of bigger companies such as Enron, WorldCom, Palamat, Polly Peck, et cetera. (Nori, 2013). Attempt by most organizations to make profit or record gains at all cost whether through legal means or not had taken various dimensions which have a lot of negative effects not only on financial statements reported but also on moral values. Different industries had devised various ways to carry out this conduct, which later backfired on them since, as in the case of Enron, what goes up must come down. It was revealed in November 2001 that Enron's top executives have been overstating their earnings by several hundreds of million dollars. After overstating their earnings, they sold their company stock prior to their company's downfall (Oyedokun, 2020). This ugly development brought about once more the debate for corporate governance to be in place which will ensure that companies are well managed by directors and other management staff to whom shareholders have entrusted this function. Michael (2015) as cited in Cohen et al., (2004) demonstrated that corporate governance has a vital function in ensuring quality and timeliness of financial reporting. Corporate governance was described by Shleifer and Vishnu (1997) as the means by which financial backers of firms ensure themselves of receiving a return on their investment. Corporate governance, seen from a broader perspective, is all about managing a company in a way that ensures its owners or shareholders obtain a fair return on their investment while also satisfying the needs of other stakeholders. Habbash (2010) opined that functional governance comprises structure of a competent audit committee and a composed Board. Realizing the need to align with international best practices, Nigeria has implemented a voluntary corporate governance code rather than taking a regulatory approach by encouraging companies on how to improve their governance and information disclosure of corporate financial reports in Nigeria has been a statue in the Companies and Allied Matters Act, Cap. C20, Laws of the federation of Nigeria 2004 (CAMA). Section 34 of the SEC (2011) code highlighted the disclosure requirements are intended to, and actually do, extend beyond the statutory requirements in the CAMA.

2.1.2 Financial Reporting Timeliness

Financial reporting timeliness refers to the number of days taken from the end of the financial year of the organization to the date its financial statements are published. According to Adullah (2007), providing the annual reports in a timely manner is not only a matter of satisfying the legal requirements, it is a matter of responsibility. This is because annual reports become the main source of corporate information. One measure of transparency and quality of financial reporting is timeliness. The elapse of time between a company's year-end and the date when financial information is released to the public is related to the quality of information reported. Oraka et al. (2019) defined financial reporting timeliness as the period between an entity's accounting year end and the publication of financial report to the user(s) of accounting. The author noted that audit lag is the number of days between the accounting year and the date the external auditor signs the financial statements. Biddle et al. (2008) describes financial reporting quality as representing an entity's economic activities and events with total correctness and accuracy. Financial reporting quality in its totality should present the right information capable of influencing the user's decision-making. Similarly, Lukason and Camacho-Minanol (2020) defined financial reporting timeliness as the ability of managers to meet the submission deadline of financial statements set by Law. Hossain and Taylor (1998), using univariate and multivariate analysis for Pakistanis listed companies, concluded that corporate attributes do not have a significant relationship with timely financial reporting.

2.1.3 Board of Directors

The Board of Directors control the affairs of the company in a lawful and efficient manner, such that the company continuously improve on its value creation. The Board is responsible for setting the strategic direction of the company and for overseeing and monitoring its business affairs. The Board is also saddled with the responsibility of developing and implementing sustainable policies that reflects the company's recognition of its stakeholders which includes customers, employees, shareholders, communities and the environment. Each directors has experience, knowledge, qualification, expertise and integrity necessary to effectively discharge the duties of the Board of

Directors. Another corporate governance issue with well-established international best practices relates to the committees of the Board of Directors. As a general company law principles, directors are empowered to establish committees to facilitate the discharge of their responsibilities. There are provisions in the Companies and Allied Matters Act, Cap. 20, Laws of the Federation of Nigeria 2004 (CAMA) that vested directors with the power to set up committees. In the first place, section 64 (a) provides that unless otherwise provided in the CAMA or in the Articles of Association Of A Company, "the Board of Directors of the company may exercise their powers through committees consisting of such members of the body as they deem fit.

2.1.4 Audit Committee Size

The audit committee refer to the committee appointed companies and respective Boards with the key objective of raising standard of corporate governance. The committee serves as a link between the Board of Directors and the external auditors of the companies. The committee should not be under the influence of any dominant personality on the main Board, neither should they get in the way and obstruct executive management. Audit committees are expected to play significant roles in monitoring the entire process of financial reporting. The size or number of the members of any given audit committee gives the clear signal of resources available to such committee. Klein (2002) opined that the potential problems in the reporting process are mostly revealed and determined by larger audit committees. In theory, as stated by the CAMA 2004, firms are likely to produce probable financial statements than those having audit committees constituted without considering the provisions of the Act. (Li et al., 2008; Persons, 2009) found that audit committee size influences corporate disclosures and disclosure practices. (Vafeas, 2005; Dezoort et al., 2002) argued that for audit committees to be more effective in the performance of their oversight functions, their respective composition must be made of adequate members.

Empirical documentation also reveal that large audit committees will enable other sub-committees to effectively assess the work carried out by external auditors within short and stipulated time (Rahmat et al., 2009).

2.2 Theoretical Review

Edward Freeman was the first to publish on stakeholder theory in 1984. In the theory, he argued that a firm should create value for all stakeholders, not just shareholders. The stakeholder theory is a theory of organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, and others. It addresses morals and values in managing an organization, such as those related to social responsibility, market economy, and social contract theory. According to Antonelli et al. (2016), stakeholder theory goes beyond shareholders, actions and decisions of companies effect several agents, these agents and their interests must be protected. This theory suggests that the primary objective of a firm should not be shareholder wealth maximization, rather it should be stakeholder wealth maximization. Antonelli et al. (2016) further buttress that stakeholders are those persons or institutions that interact with a firm and that the accounting scope of agency theory is narrowing. The stakeholder theory is appropriate for this study because it recognizes the need for all stakeholders in the annual report while prescribing timeliness to financial reports.

2.3 Empirical Review

Ahnaf (2018) reviewed the Board of Directors. The timing of financial reports depends on characteristics and ownership type. For the years 2011 to 2015, information was gathered from 68 annual reports of publicly traded firms on the Amman Stock Exchange (ASE). The results showed that there is no discernible relationship between board size and timely financial reporting. Financial reporting timeliness is negatively impacted by boards with less than eight members and positively impacted by boards with more than eight members. Similarly, Imen & Anis (2016) conducted a study on audit report timeliness in Tunisia. The study period was from 2006 to 2013. The study used 28 Tunisian companies listed on the Tunisian Stock Exchange. Findings revealed that Board size has effect on timeliness of financial reports. The study concludes that large Board size promotes, monitoring and effective strategic decision-making.

Mbobo and Adebimpe (2016) explored the influence of audit committee attributes on the quality of financial reporting in Nigerian banks. The researchers extracted data from the audited annual reports of ten (10) selected banks for the period 2006 to 2013. Inferential statistics and regression analysis were used in analyzing the data and testing the hypotheses raised in the study. Their research came to the conclusion that specific audit committee characteristics, such as independence, meeting attendance, size, and the presence of a written constitution, have a greater impact on QFR than other characteristics. Tina and Marko (2014) investigated audit delay determinants, of Croatian listen firms of the period of four (4) years covering 2008 to 2011 adopting a pooled OLS regression analysis. Their findings indicated that leverage, profitability and audit committee existence as significant attributes of audit delay in Croatia.

Ozonigbo et al. (2016) investigated the effectiveness of audit committee on the financial reporting timeliness of companies using the Ex-post factor design and longitudinal research design. The researchers focused on the pharmaceutical industry listed in the Nigerian Stock Exchange. The statistics was adopted to analyze the data collected, correlation analysis and ordinary least square

regression. The result revealed that the audit committee effectiveness has a positive and significant effect on the financial reporting timeliness of companies listed inside the pharmaceutical industry.
The study of Eslami et al. (2015) was on the effect of corporate governance on the timeliness of financial reports of listed firms on Tehian Stock Exchange. The study period was from 2011 to 2014. The technique for data analysis was multiple regression analysis. Findings revealed that Board of Directors size has positive and significant effect on financial reporting timeliness. Empirical documentation also reveal that large audit committees will enable other sub-committees to effectively assess the work carried out by external auditors within short and stipulated time (Rahmat et al., 2009).

3. MATERIAL AND METHOD

The resign design adopted in this study is ex-post factor research design. The population of the study consists of eight (8) quoted oil and gas companies on the Nigerian Exchange Group (NEG) as at 31st December 2022, and seven (7) companies were taken as the sample size. Using purposive sampling technique. The study period is from 2012-2021. The data were collected from the annual reports and accounts of the seven (7) sampled quoted oil and gas companies on the Nigerian Exchange Group (NEG) and were analyzed using descriptive and inferential statistics and the hypotheses were tested using panel regression analysis.

For the purpose of this study, the variable used to investigate audit report lag include Board of Directors and audit committee size. The study employed the regression model, capturing the impact of Board of Directors and audit committee size on audit report lag is formulated as follows:

$$\mathrm{ARL} = \mathrm{F}(\mathrm{BOD}, \mathrm{ACS})$$

The explicit formula of the model is stated as:

$$\mathrm{ARL} = \beta_0 + \beta_1\mathrm{BOD} + \beta_1\mathrm{ACS} + \mu$$

ARL = Audit Report Lag

BOD = Board of Directors

ACS = Audit committee size

μ = Error (stoclastic term)

The ARL is regarded as the dependent variable while the independent variables are Board of Directors on ARL and audit committee size on ARL.

3.1 VariableDescription

Table 1: Variables measurement

Variables	**Abbreviation**	**Measurement**
Dependent:		
Audit Report Lag	ARL	Difference in the date between when a company external auditor signs a company annual audited report and the company financial statement year end date. (In days)
Independent:		
Board of Directors	BOD	The total numbers of all directors of a company including the Chairman +Vice Chairman +CEO/Managing director + Executive Directors +Non-Executive Directors or Independent Directors but excluding the company secretary
Audit committee size	ACD	The total directors and non-directors in the audit committee

Source: Researchers' compilation

4. RESULT AND DISCUSSIONS

4.1 Descriptive Analysis

Table 2: Descriptive Statistics

Variables	**Mean**	**Std. Dev.**	**Min**	**Max**	**Obs.**
ARL	107.58	45.22	28	239	59
BOD	8.61	2.05	4	14	59
ACD	5.74	0.95	4	8	57

Minimum value is 4 and maximum value o

The descriptive analysis of the data set is displayed in Table 2 above. Audit time lag has a mean of approximately 108datys and a standard deviation of approximately 45days, and a range of 28days to 239days. The mean for board size is approximately 9 with standard deviation of 2 while the minimum number is 4 and maximum number of 14. Audit committee size has mean of approximately 6 in number with standard deviation of 1 approximately, while the maximum number is 8.

4.1.2 Normality Test

Table 3 Shapiro-Swilk Test Result

Variables	Obs.	W	V	Z	Prob>z
ARL	59	0.898	5.461	3.656	0.000
BOD	59	0.990	0.679	-0.833	0.797
ACD	57	0.969	1.593	1.000	0.158

Source: Researcher's compilation (2023) using STATA 14.0

Table 3 above showed the test for the normality of the variables using Shapiro-swillk for audit report lag (dependent variable). The independent variables (board size and audit committee size) shows that the for-board size is 0.797 while that of audit committee sizes 0.158. the dependent variable shows p-values of 0.0000, Hence, we assumed that the variables were normally distributed and Pearson correlation was appropriate for the correlation matrix.

4.1.3. Correlation Matrix

Table 4: Pearson Correlation

	ARL	BOD	ACD
ARL	1.00		
BOD	0.25	1.00	
ACD	0.09	0.40	1.00

Source: Author's Computation (2023) using STATA 14.0

The correlation matrix that explains the connection between the dependent and independent variables is shown in Table 4 above. It demonstrated a positive correlation between audit report lag (dependent variable) and independent variables board size (0.25) and audit committee size (0.09). None of them show multicollinearity problem because no value is more than 0.80.

4.1.4 Multicollinearity Result

Table 5. Variance Inflation Factor Test

Variable	VIF	1/VIF
ACD	1.19	0.8388
BOD	1.19	0.8388
Mean VIF	1.19	

Source: Researcher's compilation (2022) using STATA 14.0

Multicollinearity among independent variables implies that they are perfectly correlated. If there exists a perfect correlation between the independent variables, the parameter coefficients will be indeterminate. In this study, the variance inflation factor test was constructed to test for multicollinearity. The variance inflation factor (VIF) explained how much of the variance of a coefficient estimate of a regressor had been inflated, as a result of collinearity with the other regressors. Essentially, VIFs above 10 are seen as a cause of concern. As observed above, the mean for the VIF's values (1.19) was less than 10 and hence, there was no multicollinearity. This also supported the result of the Pearson correlation.

4.5 Regression Results

Table 6: Panel Regression Analysis

Variable	Coefficient	Z value	Prob.
Cons.	84.166	4.48	0.000
BOD	1.099	0.48	0.633
ACD	1.775	4.84	0.043
Wald Test			1.26
Prob.			0.0335
Heteroskedascity Test: Breusch-Pagan / Cook-Weisberg:			
Chi2			2.05
Prob.			0.152
Breusch and Pagan Lagrangian Multiplier Test for Random Effects:			
Chibar2			28.43
Prob.			0.00
Hausman Test:			
Chi2			4.25
Prob.			0.12
Pesaran's test of cross-sectional independence:			
Chi2			2.01
Prob.			0.04
Wooldridge test for autocorrelation in panel data:			14.14
F stat.			0.01
Prob.			

Source: Author's compilation (2023) using STATA 14.0

{} p-value, () t/z stat., ***1%, * *Sig @5%, * sig @10%

Table 6 above shows the final result for the model estimation (Robust Standard Error for Random Effect) of the hypotheses. The study estimated pooled least square and random effect model, Brusch and Pagan Lagrangian test for random effect was used to determine the appropriate model estimation between the two. The result shows a p value of 0.00 which is less than 5% significant level this implies that random effect is appropriate. Hausman test was estimated to determine the appropriate model estimation between the fixed effect and the random effect model, Hausman test has a p value of 0.11 which implies that the Random effect Model was appropriate for the model estimation. Post estimation test were carried out among others are heteroskedascity Test using Breusch-Pagan / Cook-Weisberg and the result shows p- value of 0.04 which is lower than 5% level of significance, it implies that there is heteroskedastic, meaning that the residuals of the model changed with time. Also, Pesaran's test of cross-sectional independence was estimated to check the cross-sectional dependency of the variable, it shows a p-value of 0.04. This implies that there is cross-sectional dependency in the model. However, Wooldridge test for autocorrelation in panel data was used to test for autocorrelation of the variable, it has a p-value of 0.01. This implies that there is auto correlation problem.

Therefore, in affording a sporous estimation, we corrected for cross- sectional dependency and auto correlation in the model. We adopted Robust Standard Error Model for Random Effect estimation for the test of hypotheses. The result of the analysis showed that board of director has coefficient of 1.099 with corresponding p-value of 0.633 which implies that company size has a positive and insignificant effect on audit report lag. However, audit committee size has positive and significant effect on audit report lag with coefficient of 1.775 and corresponding p-value of 0.043 which is significant at 5% level of significance.

The Wald test shows value of 1.26 with p-value of 0.033 this shows that the fitness of the model is good because the p-value is significant at 5% level of significance.

4.2 Test of hypothesis

4.2.1 Hypothesis One

H_{O1}: corporate governance has no significant effect on audit report lag of oil and gas companies in Nigeria.

From the result of the analysis in Table 6, audit fee has a coefficient of 1.099 with p value of 0.633 which shows that corporate governance measured by board size has positive and insignificant effect on audit report lag. This implies that board size does not determine the audit report lag. It means that an increase in the number of the board size can affect the audit time lag but not significant. Hence, we accept the null hypothesis that says that corporate governance does not have any significant effect on audit report lag and reject our alternative hypothesis that says corporate governance has significant effect on audit report lag.

This findings is in line with the outcome of the findings of Ahnaf (2018) who also found out that there is no significant effect of board of directors on audit report lag while our result is in contrary with that of Eslami et al (2015) ,their report showed a positive and significant effect of audit committee size on audit report lag .

4.2.2 Hypothesis Two

H_{O2}: audit committee size has no significant effect on the audit report lag of oil and gas companies in Nigeria.

From the result shown in Table 6, audit committee size has coefficient of 1.775 with corresponding p value of 0.043. this implied that audit committee size has a positive and significant effect on audit report lag which implies that an increase in the number of the audit committee will improve the audit time lag. Hence, we reject our null hypothesis that says that audit committee size does not have any significant effect on audit report lag while we accept our alternative hypothesis that says that audit committee size has significant effect on audit report lag.

This is in line with the result of Ozonigho et al. (2016), they found a positive and significant effect of audit committee size on financial reporting while that of Mbobo and Adebimpe (2016) found a negative effect of audit committee size on financial reporting timelines.

CONCLUSION AND RECOMMENDATIONS

From the analysis and the result of the findings above, the study concluded that the size of audit committee has a significant role to play in achieving early audit report lag. Also, board size has positive and insignificant effect on audit report lag. This implies that board size does not determine the audit report lag. It means that an increase in the number of board size can affect the audit time lag but not significant.

Based on the findings above, the following recommendations were suggested:

1. That board size should be within a reasonable amount for the company because it does not determine the timeliness of the report.
2. That audit committee size should be of good number and be combination of those that can perform the functions very well.

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APPENDIX

Raw Data

YEARS	COMPANIES	ARL	BOD	ACD
2012	TotalEnergies Marketing Nigeria	86	10	6
2013	TotalEnergies Marketing Nigeria	86	10	6
2014	TotalEnergies Marketing Nigeria	83	11	6
2015	TotalEnergies Marketing Nigeria	91	11	6
2016	TotalEnergies Marketing Nigeria	74	9	6
2017	TotalEnergies Marketing Nigeria	54	9	6
2018	TotalEnergies Marketing Nigeria	88	9	6
2019	TotalEnergies Marketing Nigeria	136	9	5
2020	TotalEnergies Marketing Nigeria	84	9	5
2021	TotalEnergies Marketing Nigeria	90	8	5
2012	Mrs(Texaco Chevron)	135	8	6
2013	Mrs(Texaco Chevron)	86	8	6
2014	Mrs(Texaco Chevron)	85	7	6
2015	Mrs(Texaco Chevron)	90	8	6
2016	Mrs(Texaco Chevron)	90	8	6
2017	Mrs(Texaco Chevron)	82	9	7
2018	Mrs(Texaco Chevron)	88	10	8
2019	Mrs(Texaco Chevron)	148	8	8
2020	Mrs(Texaco Chevron)	90	7	6
2021	Mrs(Texaco Chevron)	89	7	5
2012	Japaul Gold & Ventures Plc	119	10	6
2013	Japaul Gold & Ventures Plc	119	10	6
2014	Japaul Gold & Ventures Plc	139	10	6
2015	Japaul Gold & Ventures Plc	133	6	6
2016	Japaul Gold & Ventures Plc	83	6	6
2017	Japaul Gold & Ventures Plc	88	5	6
2018	Japaul Gold & Ventures Plc	85	9	6
2019	Japaul Gold & Ventures Plc	150	7	7
2020	Japaul Gold & Ventures Plc	152	7	
2021	Japaul Gold & Ventures Plc	116		
2012	Eternaoil		5	4
2013	Eternaoil	85	5	4
2014	Eternaoil	79	5	4
2015	Eternaoil	118	4	4
2016	Eternaoil	90	8	4

2017	Eternaoil	88	8	4
2018	Eternaoil	88	8	4
2019	Eternaoil	141	8	4
2020	Eternaoil	89	10	
2021	Eternaoil	90	9	4
2012	Conoil	226	10	6
2013	Conoil	216	10	6
2014	Conoil	239	10	6
2015	Conoil	175	11	6
2016	Conoil	160	14	6
2017	Conoil	141	13	7
2018	Conoil	182	13	7
2019	Conoil	157	11	6
2020	Conoil	138	10	6
2021	Conoil	88	10	5
2012	Ardova Plc (Forte Oil)	72	9	6
2013	Ardova Plc (Forte Oil)	31	9	6
2014	Ardova Plc (Forte Oil)	49	9	6
2015	Ardova Plc (Forte Oil)	28	10	7
2016	Ardova Plc (Forte Oil)	30	10	6
2017	Ardova Plc (Forte Oil)	87	8	6
2018	Ardova Plc (Forte Oil)	85	8	6
2019	Ardova Plc (Forte Oil)	59	6	6
2020	Ardova Plc (Forte Oil)	90	6	6
2021	Ardova Plc (Forte Oil)	187	6	5

Source: Annual reports