

AUDIT COMMITTEE EFFECTIVENESS AND AUDIT REPORT LAG OF LISTED NON-FINANCIAL COMPANIES IN NIGERIA

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ABSTRACT

This study examined the relationship between audit committee effectiveness and audit report lag of listed non-financial companies in Nigeria. The ex-post facto research design was adopted, secondary data was extracted from annual reports and accounts of the thirty-one listed non-financial companies for six years (2013-2018). Data were analyzed using robust regression analysis; the findings revealed a negative but non-significant relationship between audit committee effectiveness and audit report lag of listed non-financial companies in Nigeria. The study concludes that delay in the release of financial statements has severe consequences and will erode public confidence, hence the need to meet the requirement of financial reporting timeliness cannot be overemphasized. It is therefore recommended that an effective audit committee is necessary to oversee organization's external audit process and improve financial reporting practices of non-financial companies in Nigeria.

Keywords: Audit Committee Effectiveness, Audit Report Lag, Non-financial Companies

1. INTRODUCTION

One of the obligations of listed companies in Nigeria is the filing of financial statements as of, and when due, hence timeliness as one of the characteristics of financial information cannot be overemphasized. This is in consideration that listing on the Nigerian Stock Exchange provides firms with a strongly regulated operating environment, transparent transactions, competitive prices, access to a large pool of domestic and international investors, efficient and advanced trading platforms and efficient investor protection regime.

However, delay in the release of financial statements has severe consequences and will erode public confidence. Even if financial information has made the requirement of relevancy and reliability, the need to meet the requirement of timeliness cannot be underestimated because delay in releasing audited financial statements results in regulatory fines and increases the uncertainty associated with investment decisions (Atkas & Kargin, 2011). Hence, an increase in the audit report lag reduces the relevance of financial information.

A competent audit committee characteristic including audit committee size, independence, financial expertise, and audit committee meetings will significantly influence the committee deliberations not only on the preparation of the annual reports and account but also on the external audit processes to facilitate the timely release of audit reports.

However, in Nigeria, the provisions of the Companies and Allied Matters Act (CAMA, 2004), as amended, stipulate the maximum of three (3) months within which listed companies are expected to complete and make their audited financial report available to the users of the financial reports. Empirical evidence proves that the existence of a competent audit committee reduces audit report lag, for example, Sultana, Singh and Zahn (2015) in Australia; Salleh, Baatwah and Ahmad (2017) in Malaysia; Akhor and Oseghale (2017), Eyenubo, Mohammed, and Ali (2017) and Ogoun, Edoumiekumo and Nkak (2020) in Nigeria; Abdillah, Mardijuwono and Habiburrochman (2019) in Indonesia.

Hence, the existences of an effective audit committee as a compliance committee indicate higher quality monitoring and should reduce the audit report lag. However, despite the presence of audit committees on the board of listed companies, there have been several cases of delay in filing financial statements in Nigeria. For example, the Nigerian Stock Exchange (NSE) boosted its revenue with N143.6 million fines imposed on listed companies across banks, manufacturing, insurance sectors, among others between January and November 2019. Hence the effectiveness of the audit committees of listed companies in Nigeria is in doubt, and therefore the present study examines the effectiveness of audit committees and its effect on audit report lag of listed non-financial companies in Nigeria. The next section contained the conceptual definitions and the review of existing literature, section three contained

methodology, and its justification. Section four presents results, while section five contains conclusion and recommendations based on the findings.

2. LITERATURE REVIEW

The concept of Audit Committee effectiveness

Audit Committee effectiveness has been described as the competence within which the audit committee carries out its specified oversight functions (Kalbers & Forगतy, 1993). Dezort, Hermanson, Archambeault and Reed, (2002) defined an effective audit committee as comprising qualified members with the authority and resources to protect stakeholders' interests by ensuring reliable financial reporting, internal controls, risk management, due diligent and oversight efforts. They identified four fundamental determinants of audit committee effectiveness as follows: (i) composition- such as expertise, independence, integrity, and objectivity (ii) authority- such as responsibilities (iii) resources- such as size and support for internal and external auditors and (iv) diligence such as meeting frequency, incentives, and motivation.

Audit committees are intended primarily to increase the credibility of financial statements to the shareholders and investors and review the internal control and risk management systems (FRC, 2012). However, according to Chukwunedu, Ogochukwu and Chiedu (2015) audit committee effectiveness in Nigeria are strongly influence by (i) financial literacy of members, (ii) only nonexecutive directors should be members of the committee, (iii) members must be open to regular training, (iv) members must be able to ask relevant questions, (v) members must have machinery for periodic evaluation of their performances.

The concept of Audit Report Lag

Audit report lag refers to the length of time between the fiscal year-end of a company and the date of the auditor's report. According to Sultana, Singh & Zahn (2015), this period is divided into two components, which include management audit report lag and auditors audit report lag. Management audit report lag is the time management takes to prepare the financial statements and present it to auditors for audit purposes. The auditors' audit report lag is the time taken to complete the audit process; it represents the time between the management's submission of the prepared financial statement to the external auditors and the starting of the audit process and the

issuance of the audit report. International Accounting Standard Board (2008) defines timeliness as the availability of information (needed by decision-makers for useful decision making) in time to be able to influence decisions. Previous studies confirmed that the shorter the period between a company's financial year-end and auditor's report date, the more the benefits derivable from the audited financial statements because stale news is not news.

Review of Empirical Studies

A number of studies written on audit committee effectiveness and audit report lag includes but not limited to the following studies; Yadirichukwu and Ebimobowei (2013) determined the effect of audit committee and timelines of financial reports of thirty-five firms listed on the Nigerian Stock Exchange for the period 2007-2011. Secondary data were collected from the annual reports and accounts of the companies. Pooled least square regression and granger causality test was used for data analysis. The findings revealed that audit committee independence (ACI) is significantly related to the timeliness of financial reports; Audit committee meeting (ACM) is not significantly related to timeliness of financial reports; Audit committee expertise (ACE) is significantly related to the timeliness of financial reports and Audit committee size (ACS) is not significantly related to the timeliness of financial reports.

Azubike and Aggreh (2014) determined the effect of company size, profitability, complexity, and audit firm type on audit report timeliness using a cross-sectional research design. Secondary data was obtained from annual reports of listed manufacturing companies in Nigeria for three years (2010-2012). Ordinary least squares (OLS) regression technique was used in analyzing data, and the finding revealed that board size has a significant effect on audit report lag, a significant relationship between board independence and audit report lag, and a non-significant relationship between audit firm type and audit report lag. The findings also revealed that time lag prescribed by the regulatory bodies is usually too much, thus encouraging companies to engage in the act of delaying their financial statements.

Similarly, Ilaboya and Christian (2014) examined the effect of board size, board independence, audit firm type, audit committee size, audit committee independence and firm size on audit report lag of one hundred and twenty (120) listed manufacturing companies on the Nigerian Stock Exchange. The study covered five

years (2007-2011) and used secondary data extracted from annual reports and accounts of the companies' understudy. Data were analyzed using Ordinary Least Square (OLS) regression; the findings revealed 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 of manufacturing companies in Nigeria.

Sultana, Singh and Zahn (2015) investigated whether audit committee compositional features have a significant effect on the timeliness of Australian firms' financial reporting. Secondary data was used and analyzed using regression analysis. The findings revealed that audit committee members with financial expertise, prior audit committee experience, and independence are associated with shorter audit report lag. Results revealed that legislation mandating audit committee, financial expertise, and independence effectively improves the timeliness of financial reporting. The findings further revealed that the benefits of constituting audit committees with other compositional features such as prior committee experience improve the timeliness, and therefore quality, of financial reporting by firms.

Similarly, Akhor and Oseghale (2017) examined the effect of audit committee attributes on the Nigerian banking sector's financial reporting lag. The quantitative and longitudinal research design was used, and secondary data for the periods 2011 to 2015 were collected from the annual report of banks' understudy. Ordinary least square regression and Ramsey reset test were used for the data analysis. The findings revealed that audit committee independence has a significant effect on financial reporting lag; however, audit committee meeting and audit committee gender has no significant effect on financial reporting lag.

In a similar fashion, Salleh, Baatwah and Ahmad (2017) examined the effect of audit committee financial expertise on financial reporting timeliness (audit report lag) of the top 100 Malaysian companies using data from 2005 to 2011. The data were analyzed using a fixed-effects panel data approach; the findings revealed that audit committee financial expertise has no significant relationship with audit report lag. The study investigates the fundamental premise that audit committee independence enhances the role of audit committee financial expertise. However, the interaction effects revealed an insignificant association. The study also finds evidence that neither a large number of subsidiaries nor the quality of financial reporting

sufficiently justifies the recent Malaysian reforms relating to the financial reporting time frame.

In the same vein, Chukwu and Nwabochoi (2019) examined the effect of audit committee characteristics on the timeliness of corporate financial reporting in the Nigerian insurance industry. The ex-post facto research design was used, and secondary data was extracted from the annual reports of fifteen insurance companies listed on the Nigerian Stock Exchange during the period 2012 to 2015. Data were analyzed using ordinary least square regressions analysis. The findings revealed a negative and significant relationship between audit committee meeting frequency and timeliness of corporate financial reporting, a negative but not significant association between audit committee gender, audit committee independence, and corporate financial reporting timeliness. The findings further revealed that the relationship between audit committee size and corporate financial reporting timeliness was positive but not significant.

However, Abdillah, Mardijuwono and Habiburrochman (2019) examined and analyzed the factors that affect an auditor's efficiency in completing the audit process proxy by audit report lag of all manufacturing companies listed on the Indonesian Stock Exchange for the period 2014–2016. Company characteristics were proxy by the audit committee's effectiveness, financial condition, accounting complexity, and profitability, whereas auditor characteristics were proxy with auditor reputation, audit tenure, and auditors' industry specialization. Multiple linear regression analysis was used to analyze the data. The findings revealed that audit committee effectiveness and profitability had a significant negative effect on audit report lag, while the financial condition had a significant positive effect on audit report lag. However, accounting complexity, auditor reputation, audit tenure, and auditors' industry specialization did not significantly influence audit report lag.

Similarly, Raweh, Kamardin and Malik (2019) assessed the relationship between audit committee characteristics and audit report lag of 255 companies listed on the Muscat Securities market from 2013 to 2017. Secondary data was used, and the multivariate regression analysis revealed that audit committee size has a positive impact on audit report lag, audit committee financial expertise reduces audit lag. However, the findings did not show that audit committee independence, and meetings significantly impacted the audit report lag.

Akinleye and Aduwo (2019) examined the relationship between audit committee effectiveness and the timeliness of financial reporting in Nigeria using food and beverages companies listed in the industrial sector of Nigeria economy. The study covers 2011-2015. Data were analyzed using regression analysis. The findings revealed no significant relationship between audit committee size and timeliness of financial reporting of listed food and beverages companies in Nigeria. The findings also revealed a non-significant relationship between frequency of meetings and timeliness of financial reporting of listed food and beverages companies in Nigerian.

Gbalam and Enwongo (2020) determined the impact of corporate governance on the timeliness of audited reports of quoted companies in Nigeria. Secondary data was extracted from published financial statements of the companies; data were analyzed using regression analysis. The findings revealed that board composition has a significant effect on the timeliness of the audited reports. The findings indicate that late filers companies are likely to have boards with significantly lower numbers of independent non-executive directors and audit committee members' financial expertise than the early filers companies. The findings further showed that board independent non-executive directors and audit committee financial experts have a significant positive effect on the timeliness of companies' audited reports.

At the same time, Ogoun, Edoumiekumo & Nkak (2020) examined the effect of audit committee attributes on audit report lag of listed industrial firms in Nigeria. Ex-post facto design was adopted in which secondary data were extracted from the NSE factbook and financial reports published by selected listed companies covering eight years (2012-2019). Ordinary Least Square (OLS) were adopted for the data analysis. The findings revealed that audit committee taken as a whole, does not necessarily facilitate speed in the release of audited certified annual report of firms in this sector. However, decomposing the analysis via a variable silos model reveals that the number of financial experts on the committee and non-executive directors contributes considerably to ensuring the timeliness of audited certified annual financial returns. Therefore, it can be inferred that the compositional characteristics of the audit committee has significant influence on audit report lag of listed industrial firms in Nigeria.

A dearth of literature exists and the present study use the audit committee effectiveness index hence an addition to the existing empirical studies.

Theoretical framework

Agency theory is considered to give the theoretical basis for understanding the dynamics of audit committee effectiveness and its influence in minimizing audit report lag of listed non-financial companies in Nigeria; it underpins the present study because of agency conflict. This is because the existence of a conflict of interest between the management and the shareholders will result in information asymmetry since the management has more detailed information about the company than owners. However, an effective audit committee as a board compliance committee is expected to ensure compliance with all regulatory requirements and align the interest of management with the interest of the shareholders, hence reducing agency conflict. It is, therefore, adopted to guide this study.

3. METHODOLOGY

This section explains the methodology used in conducting this study, therefore, it explains the research design, the population of the study, the sample size and the technique used in selecting the sample, the variables of the study, and their measurement and techniques used in analyzing the data. This study adopts a quantitative research methodology because the purpose of research under this approach is to establish relationships between measured variables, under this method the researcher is ideally an object observer who neither participates in nor influences what is being studied. This framework is seen as the best for this study as it examines the relationship between audit committee effectiveness and audit report lag of the selected non-financial companies under study. Thirty-one companies were selected based on two criteria; one, a company must be listed through the period under study, and a company must disclose the required data in their annual report and account for the period 2013 – 2018 under study.

In line with the requirements of the CAMA (2004 as amended) and SEC (2003 & 2011) code of corporate governance in Nigeria, the audit committee effectiveness index comprised four items. It was calculated as the ratio of the actual number of audit committee items found in each financial statement to the index's total items. All items were obtained from the annual reports of listed companies' understudy, and each item has 1 point, while the index was the ratio of total points scored by a firm to the sum of the points on the index for each year.

Table 1
Audit Committee Effectiveness Index

SN	Items
1	Members of the committee are not less than six
2	Audit committee has majority of non-executive directors
3	Financial expertise of audit committee members
4	4 or more audit committee meetings annually

Source: SEC (2003 & 2011) Code of Corporate Governance and CAMA 2004 (as amended).

Table 2
Variables of the Study and their Measurement

Variables	Measurements	Type of Variable
Audit Report Lag (ARL)	Length of time between the fiscal year end of a company and the date of auditors' report.	Dependent Variable
Audit committee effectiveness (ACE)	Calculated as ratio of actual number of audit committee characteristics to the total items on the ACE index	Independent Variable
Firm Age	The variation in company age was used to differentiate between current year and the year of listing on the floor of the NSE to date.	Control variable
Firm Size	Size of the company was measured as the natural logarithm of the book value of total assets as at the end of the year.	Control variable

Source: (SEC (2003 & 2011); CAMA 2004 (as amended); Raweh, Kamardin and Malik (2019); and Abdillah, Mardijuwono and Habiburrochman (2019).

4. RESULTS AND DISCUSSION

Descriptive Statistics

The result of the descriptive statistics including mean, standard deviation, minimum and maximum is presented in Table 3.

Table 3
Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Audit report lag	186	95.957	40.070	41	313
Audit comm index	186	0.884	0.178	0.5	1
Firm size	186	10.258	0.893	8.419	12.032
Firm age	186	32.113	10.023	11	61

Source: STATA output

The descriptive statistics on Table 3, revealed a mean of 95.957 for audit report lag, a minimum and maximum of 41 and 313 respectively, and a standard deviation of 40.070 signifies no significant variation in audit report lag of the listed non-financial companies in Nigeria within the period under study. Audit committee effectiveness index has a mean of 0.884, a minimum and maximum of 0.5 and 1 respectively, and a standard deviation of 0.178 shows that audit committee effectiveness index of the companies under study did not deviate significantly. On average the firm size has a mean of 10.258, a minimum and maximum of 8.419 and 12.032 respectively and a standard deviation of 0.893 shows that the firm size did not deviate significantly. Firm age has a mean of 32.113, a minimum and maximum of 11 and 61 respectively. However, a standard deviation of 10.023 signify no much variation in firm age of the non-financial companies under study.

Table 2

Correlation Matrix for the variables used in the study

Variables	Audit report lag	Audit comm index	Firm size	Firm age	VIF
Audit report lag	1.000				
Audit comm index	-0.038	1.000			1.08
Firm size	0.118	0.074	1.000		1.05
Firm age	-0.162	-0.250	0.176	1.000	1.11

Source: STATA output

It can be seen from Table 2 that explanatory variables audit committee effectiveness and firm size has a negative correlation with audit report lag. However firm age is positively correlated with audit report lag (ARL). The VIF test revealed absence of multi-collinearity as the VIF ranges between 1.05 and 1.11.

Table 3

Robust Regression Results

Auditreportlag	Coef.	Std.Error	T.Value	P>/t/
Constant	68.922	37.390	1.84	0.067
Audit comm index	-23.369	21.198	-1.10	0.272
Firm size	7.359	4.136	1.78	0.077
Firm age	-0.866	0.289	-2.99	0.003

F (3, 182) = 3.29
 Prob > F = 0.0220
 R-squared = 0.5083
 Mean VIF = 1.08
 Hetttest = 0.000

Source: STATA output

From Table 3, the robust regression results show R-square of 0.5083 meaning the explanatory variables account for 51% changes in the dependent variable. F-statistic value of 3.29 and its associated p-value of 0.0220 showed that there is a significant linear relationship between audit reports lag and audit committee effectiveness. The result revealed that the relationship between audit committee effectiveness and audit report lag is negative but not statistically significant, this implies that effective audit

committee influence management decisions on the preparation of financial statement which have significant impact on audit process. This is consistent with findings of (Sultana, Singh and Zahn 2015; Akinleye and Aduwo 2019; Ogoun, Edoumiekumo and Nkak 2020). It is however, contrary to the findings of (Akhor & Oseghale 2017; Abdillah, Mardijuwono & Habiburrochman 2019).

The findings further revealed a positive and significant relationship between firm age and audit report lag, however, the relationship between firm size and audit report lag of listed non-financial companies in Nigeria was negative and significant, implying that larger firms have reputations and achieved economy of scale therefore have the resources available to facilitate the release of financial report and account within short period of time.

5. CONCLUSION AND RECOMMENDATIONS

This study examined the relationship between audit committee effectiveness and audit report lag of listed non-financial companies in Nigeria. Based on the findings; the study concludes that delay in the release of financial statements has severe consequences and will erode public confidence, hence the need to meet the requirement of financial reporting timeliness cannot be overemphasized. It is therefore recommended that an effective audit committee is necessary to oversee organization's external audit process and improve financial reporting practices of non-financial companies in Nigeria. The present study concentrates only on the audit committee effectiveness index comprised up audit committee size, independence, financial expertise, audit committee meetings and consider listed non-financial companies in Nigeria, therefore, future studies may consider audit committee meetings attendance, audit committee gender diversity in financial sector of the Nigerian economy.

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