# CORPORATE GOVERNANCE AND AUDIT DELAY OF FIRMS IN NIGERIA


## ABSTRACT

This study is on corporate governance and the influence of audit delay on firms in Nigeria. The study is guided by two specific objectives. These are to examine the influence of board size on audit delay of firms in Nigeria, and secondly, to determine the effect of board independence on audit delay of firms in Nigeria.

From the 19,200 total staff of the six firms, each from the six geopolitical zones that make up the Nigeria, a sample size of 400 was derived by the use of Taro Yamane formula. Structured questionnaire was used to gather data from the respondents and the hypotheses were tested using regression analysis. The results show that board size significantly influence audit delay of some firms in Nigeria and the board independent significantly influence audit delay of some firms in Nigeria. Therefore, it could be concluded that corporate governance significantly influence audit delay of some firms in Nigeria. The following recommendations are therefore suggested. Firstly, adequacy, in terms of relevant experience and number of members required should be given serious consideration when selecting members into the board. Secondly, dual loyalties of members should be minimized. Situation where executive members of management dominate decision making should not be entertained, because the purpose of the audit report is to access the activities of management in the organization for the period under review



**Keywords:** Corporate governance, board size, board independence, audit delay


## INTRODUCTION

The delay in auditing often affect the time of presentation of corporate financial reports to stakeholders. The organization and the stakeholders as a system are made up of many subsystems which are interdependent on each other. Timeliness is therefore important in all facets of the system to ensure that there is no delay in all forms of processes and procedures. This will ensure the outputs of one subsystems get to the receiving subsystem timely, ensure budgeted outputs are achieved in time and stakeholders demands are met timely. Timeliness is an important factor for measuring the efficiency and effectiveness of management efforts. Also, timeliness is an important feature of the usefulness of accounting information (Ku, Ismail & Chandler, 2004). And audit quality is also measured in terms of its timeliness (Leventis, Weetman & Caramanis, 2005).

Many factors can affect the timeliness of corporate financial reporting such as board size, board independence, politics, inappropriate leadership styles, lack of communication, and so on. These factors can make the monitoring role of independent boards (Afify, 2009) ineffective. Secondly, the number of appointees into the board is not statutorily defined. If the board size is made up of many members, some of who are politically oriented, could nurture an argument completely at variance with the vision and mission of the organization. These could be time consuming and the lack of cohesion could lead to audit delay of the corporate financial reporting. The study therefore examined some corporate governance's components that have influence on audit delay of some firms in Nigeria.

The study is necessary because timely presentation of audit reports will support realistic budgeting, facilitate efficient decision making and reduce the rate of corruption in the country.

## 2.0 Objectives of the study

The study aim at examining the influence of corporate governance on audit delay of some firms in Nigeria. The specific objectives are to:

(i) Determine the influence of board size on audit delay of firms in Nigeria

**(ii)** Investigate the influence of board independence on audit delay of some firms in Nigeria

## 3.0 Research Hypotheses

The hypotheses formulated for this study are

$H_{o1}$: Board size has no significance influence on audit delay of firms in Nigeria.

$H_{o2}$: Board independence has no significant influence on audit delay of firms in Nigeria.

## 4.0 Review of Related Literature

### 4.1 Board size

Board size refers to the number of non-independence directors and external directors serving on the board of any corporate organization. The appropriate number of directors that should constitute board size is still being debated. Why big-sized board face coordination challenges, small-sized board is considered appropriate for effective coordination, but lack necessary competence and experience (Matouss & Chakroun, 2008). Board size is a basic aspect of effective decision making. Alexander and Fatimoh (2015) argued that the most common corporate governance attributes is board size.

There is an ongoing discussion among accounting researchers as to whether large or small boards are more effective in monitoring management and improving the quality of corporate reporting (Yousef, 2016). One of the disadvantages associated with large board is coordination problem, which makes a large board less efficient monitor than a small board (Dimitropoulos & Asteriou, 2010). Why Hussainey & Wang (2010) argued that large boards are more efficient in executing their responsibilities as the collective experience and expertise of the board will be increased and are more likely to reduce the dominance of management. Yousef (2016) observes that board with more than eight members are unlikely to be effective and inhibit board performance as large board may create communication and coordination problems and hence its effectiveness and monitoring efficiency declines (Dimitropoulos & Asteriou, 2010). In selecting adequate number of members for a board, the competence in terms of expertise and experience in the industry should be given prior consideration.

### 4.2 Board Independence

Board independence is the percentage of independent directors relative to the total number of directors (Freihet, Farhan & Sharikat, 2019). Eniola and Aloo (2020) define board independence as a board with majority of outside directors. Board with a greater number of independent directors can better control the opportunistic behaviour of managers and protect shareholders interest and as well help in enhancing the stock prices of the firm better than a board with a lot of dependent members (Forough & Fooladi, 2012).

The independent directors may have been selected due to their peculiar skills possess which are lacking in the organization or to enrich what the organization already have in some of their employees. Hence, Eniola and Aloo(2020) noted that independent directors bring in more skills and knowledge to the company which increase expertise necessary for strategic implementation. The effective monitoring by outside directors diminishes agency costs and enhance company performance (Ilaboya & Iyafekhe, 2014). The inclusions of independent directors on the board pave way for wider acceptability of board's deliberations, including matter of timely report of financial statements.

### 4.3 Audit Delay

The firm has a responsibility to bring up its accounts to date, get it audited by a team of independent external auditors and present the financial reports in the annual general meeting (AGM). The process of generating external audit reports take time. This lag in time is often referred to as audit delay. The time required by external auditors to audit the financial statements eventually leads to a phenomenon called audit delay (Rediyantor, Sutrisno & Endang, 2017). The timeliness of financial reporting is considered a main factor in emerging and developing markets where the audited financial statements in the financial reports, play an important role in all decision making. Chiokha and Idialu (2017) define audit delays as the length of time of audit accomplishment from the ending date of the financial year to the conclusion date of the external auditors' reports. Audit delay that exceeds the time of publication of financial statements will likely tarnish a company's reputation with investors(Meggy & Patricia, 2018).

The company and Allied Matters Act (CAMA) of 2004 as amended indicates that the period of reporting delay in Nigeria is a maximum of 180 days. The shorter the period of audit delay, the better for stakeholders to study and make meaningful inputs during presentation at the annual general meeting (AGM). This study is anchored on stakeholders theory which stated that in order to satisfy the various stakeholders, information should be made available to them as at when required (Paul & Waidi, 2016) and the timeliness of the financial statements play a crucial role here.

## 5.0 Methodology

**Table 1: Schedule of Questionnaire Administered**

| **Number of questionnaires administered** | **Number of questionnaires returned** | **Number of questionnaires not returned** |
|---|---|---|
| 400 | 392 | 8 |

**Source: Field Survey (2022).**

400 copies of questionnaires were administered, 392 were retrieved with efficient use of internet services by the researchers. This represents 98% of returns.

Survey research design was adopted in the study. The sample size of 400 was derived by applying Taro Yamane formula to the total number of staff of the six selected firms; a firm from each of the six geopolitical zones that make up the Nigeria.

Total number of staff in the six organizations chosen from the six geopolitical zones is 19,200.

Taro Yamane formula - $n = N/1+N(e)^2$

Where:

***n*** = sample size

***N*** = Population of the total number of staff from the six organizations in the country.

***e*** = 0.05%

***n*** = 19,200/1 + 19,200 (0.0025)

= 392 approximately 400

## 5.1 Method of Data Collection

The data were collected by the use of structured questionnaire and oral interview. Journals and magazines form the sources of secondary data and regression analysis was used to test the hypotheses.

## 6.0 Results and Discussion

### 6.1 Findings

(a) Hypothesis 1: The board size has no significant influence on audit delay of some firms in Nigeria

To test this hypothesis, the scores obtained from statements pertaining to board size and audit delay were rescaled into two different variables labelled board size and audit delay respectively.

The OLS regression model is expressed as:

y = f (x,e)

Where

y = audit delay

x = board size

e = error term

**Table 2: Regression analysis result**

| Source | ss | Df | Ms | Number of obs = | 392 |
|---|---|---|---|---|---|
| Model | 8219.80496 | 1 | 8219.80496 | F(1, 390) = | 3237.88 |
| Residual | 990.070036 | 390 | 2.53864112 | Prob > F = | 0.00000 |
| Total | 9209.87500 | 391 | 23.5546675 | R. square = | 0.89250 |
| | | | | Adj R.squared = | 0.89220 |
| | | | | Root MSE = | 1.59330 |

| Audit delay | Coef. | Std error | t | P > /t/ | [95% conf. Interval |
|---|---|---|---|---|---|
| Board size | 1.015041 | .0178383 | -56.90 | 0.000 | |
| Cons | -3.089357 | .3483507 | -8.87 | 0.000 | |
| Regression equation: Audit delay = -3.089 + 1.0150 Board size | | | | | |

The linear regression established that board size could statistically significantly predict audit delay, (F(1, 390) = 3237.88, p = .0001. The coefficient of determination (R-square) was 89.25%. This means that board size action accounted for 89.25% of the explained variability in audit delay. The adjusted R-squared was 89.22%. Therefore, the hypothesis that stated that there is no significant relationship between board size and audit delay is rejected in favour of the alternate hypothesis, which state that the board size has significant influence on audit delay of some firms in Nigeria (P-value < 0.001).

This finding is supported by Ilaboya & Iyafekhe (2014), who examined the impact corporate governance has on the timeliness of financial statements of quoted firms in Nigeria. The study revealed a significant relationship between board soze and timeliness of financial reports.

**Hypothesis 2:** The board independence has no significant influence on audit delay of some selected firms in Nigeria

To test this hypothesis, the scores obtained from statements pertaining to both board independence and audit delay were scaled into two different single variables labelled board independence and audit delay respectively.

The OLS regression model is expressed as:

$y_o$ = f ($x_o$, e)

Where

$y_o$ = Audit delay

$x_o$ = Board independence

e = error term

**Table 3: Regression analysis result**

| Source | Ss | df | Ms | Number of obs = | 392 |
|---|---|---|---|---|---|
| Model | 7975.79848 | 1 | 7975.79848 | F(1, 390) = | 2520.56 |
| Residual | 1234.07652 | 390 | 3.16429878 | Prob > F = | 0.00000 |
| Total | 9209.87500 | 391 | 23.5546675 | R. square = | 0.86600 |
| | | | | Adj R.squared = | 0.86570 |
| | | | | Root MSE = | 1.77880 |

| Duration | Coef. | Std error | T | P > /t/ | [95% conf. Interval | |
|---|---|---|---|---|---|---|
| Board independence | 0.916841 | 0.018261 | 50.21 | 0.000 | .8809372 | 0.952748 |
| Cons | 5.446933 | 0.232197 | 23.46 | 0.000 | 4.990416 | 5.903449 |
| Regression equation: Audit delay = 5.447 + 0.9168 Board independence | | | | | | |

Table 2 above shows that board independence has a significant influence on audit delay of some selected firms in

Nigeria F (1, 390) = 2520.56, P = .0001. The coefficient of determination (R-square) was 86.60%. This accounted for 86.60% of the explained variability in audit delay. The hypothesis that stated that the board independence has no significant influence on audit delay of some firms in Nigeria is rejected in favour of the alternate hypothesis (p-value < 0.001).

This findings is supported by Afify (2019) who in their study of the relationship between board independence and audit delay found that there is a significant

relationship between an independent board and the lag in audit reporting and indicate that independent board could positively influence the quality of financial disclosure and timeliness of financial reports.

**Conclusion and Recommendations**

Corporate governance (board size and board independence) in this study has been found to have significant influence on audit delay of some firms in Nigeria. Consequently, one can conclude that corporate governance has significant influence on audit delay of firms in Nigeria. Audit delay has serious set-back on the activities of management as well as the practical and social implications of stakeholders because the report is the guide on which most stakeholders will base their investment decisions. Therefore, the following recommendations are suggested;

(i) In deciding the board size, the number of members should be

seen to be adequate in the eye of members. Majority of the members should possess relevant experience and expertise with regard to activities of the firms. The inclusion of members on political ground will lead to unnecessary argument and delay in decision taking.

(ii) The number of non-executive members should be more than executive members in the board to allow for objectivity in debate and decision making. It should be noted that it is the efforts of the executive members that are to be appraised in the audit reports. Annual general meeting (AGM) reports generated during meetings that are dominated by non-executive members will have wider acceptability on the part of the stakeholders.

(iii) Management should live up to their responsibilities as strategists and be focused on the vision and mission of the organization.

No single research can sufficiently address the issues bothering on social problems. Therefore, future researchers are advised to carry out study on the economic implications of audit delay of corporate governance of firms in Nigeria.

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