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# Shareholder's involvement in the audit committee, audit quality and financial reporting lag in Nigeria

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**Abstract:** The study investigates shareholders impact as audit committee members and two attributes of audit quality in relation to financial reporting lag (FRL). The data were collected from firms listed on the Nigerian Stock Exchange (NSE) for 2011 to 2015 financial years. The study utilizes panel corrected standard errors (PCSEs) and quantiles regression. Findings indicate a negative and significant relationship between SFEX, SACR, BLKH, ROA, GWTH and (FRL). The study finds evidence that shareholders can enhance reporting timeliness while Big4 audit firms can perform faster audit work. The result also shows a glimpse of the level of non-compliance with regulation.

**JEL Classifications:** M41, M42, M48

**Keywords:** Shareholders, audit committee, audit quality, financial reporting lag
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## 1. Introduction

Financial report remains one of the single most reliable sources of accounting information to stakeholders and external users (Alkhatib & Marji, 2012; Rusmin & Evans, 2017). The quality of financial statement must therefore, be reliable, relevant and influences economic decision (FASB, 1980). To make the financial statement reliable and relevant, the information contents should be made public to users within the regulation time (Al-Ajami, 2008). Timeliness add value to content of the information, reduce information asymmetry and lead to the improvement of company's' value (Schwartz & Soo, 1996; Abidin & Ahmad-Zaluki, 2012; Blankley, Hurtt & MacGregor, 2014). Thus, timeliness of financial report is critical to the firm value as unnecessary delay would adversely affect the relevance of information content of the report (Jaggi & Tsui, 1999; Ahmed & Che-Ahmad, 2016). Prior studies document that delaying publication and the release of financial report may cause negative reactions to the earnings announcement and equally spur a negative reaction that would affect the efficiency of the stock market (Leventis, Weetman & Caramic, 2005; Alkhatib & Marji, 2012; Chambers & Penman, 1994). It may further result to firms' auditor's change (Mande & Son, 2011). Financial reporting lag is defined as the period taken between a firm's fiscal year ends to the date when the report is published (Aubert, 2009). This implies that a vital role is being played in determining the delay by the management during financial statement preparation and external auditors when examining it (Khalif & Samaha, 2014).

However, the financial scandals that led to the collapsed of big companies across the globe and Nigeria in particular raised doubt and concern on audit committee effectiveness in preparation and readability of financial report within the time limit expected. The use of the outdated governance code has also adversely affected the performance of audit committee which lower the stock market effeiciency and led its crash in 2008 (Ikpang, 2008; Adeyemo, 2012). Further, poor audit committee functions had also resulted to auditors' independence impairment which caused several accounts overstatement (Punch, 2015). In addition, the defunct Nigerian Accounting Standards (SAS) lacks adequate disclosure provisions that would satisfy the need of the stakeholders as well as the capital market. Consequent upon the ugly situation, regulatory changes have been put in place with a unique audit committee composition. The Nigerian audit committee composition is made up of three equal number of non-executive directors and three representatives of shareholders under section 359(3&4) of the Companies and Allied Matters Act issued by the Corporate Affairs Commission (CAC) and part 'E' article 30 of corporate governance code issued by the Security and Exchange Commission (CAMA, 2004; SEC; 2011). Moreover, emphasis is placed by the new code on the board of directors' independence and shareholders as owners to oversee the financial reporting process; protect auditors' independence and influences the timeliness of financial report.

Prior studies focused on audit report lags and have attributed the delay to certain firm features and complexities such as client subsidiaries, firm size, audit fees and overseas operation (see for example Ettredge, Li & Sun, (2006); Blankley et al., 2014; Alali & Elder, 2014; audit risk; Rusmin & Evans, 2017), corporate governance such as board independence, audit committee effectiveness, frequency of boards and or audit committee meeting (Ahmed & Che-Ahmad, 2016). Several others viewed it from different perspectives which include an external auditor's size, tenure, audit firm technology, structure, provision of non-audit services, audit partner rotation and auditor changes (Bamber, Bamber & Schoderbek, 1993; Jaggi & Tsui, 1999; Lee, Mande, & Son, 2009; Tanyi, Raghunandan & Barua, 2010; Knechel & Sharma, 2012). It is argued that large audit firms have adequate resources, reputational risk as well as quality staff with technical know-how (Palmrose, 1986; Francis & Wilson, 1988; Chan, Ezzamel & Gwilliam, 1993), hence, are likely to provide a high quality audit performance. Specifically, brand name auditor such as Big4 auditors can provide efficient service and faster that will result to timely financial reporting.

Given the clear and importance differences in the composition of the audit committee of both developed and emerging economies, Nigeria's audit committee stand out as the only unique committee which through the company's act and corporate governance regulations require shareholders to sit in the committee as members. The code highlighted that shareholders are to enhance the preparation and the readability of the financial report within the regulation time. Carrying out this study for Nigeria therefore, avails us with a distinct opportunity to provide a clear perception into the potency of shareholders in reducing the magnitude of financial reporting lag. In contrast to developed nations' system of corporate governance, the key characteristics of the corporate governance horizon in Nigeria include a substantial level of weak law enforcement, ownership concentration, and lack of international market discipline for corporate control (World Bank, 2009). Our analysis focuses on the audit committee composition and its effectiveness in discharging of its responsibilities as well as audit quality in relation to financial reporting lag.

The study adds to the existing body of literature in many ways. First, to the best knowledge of the researchers, this present study represents the first attempt to examine

the roles of shareholders as audit committee members to which reflects the unique characteristics of the audit committee composition of the revised code that never exist anywhere, hence, add value to this research. Second, the study brings to the limelight the operational settings regarding managers' incentives and shareholders effort and influence in explaining the CG- FRL relationship. Third, the results also add to the body of auditing and CG literatures by providing evidence that in Nigeria, both the almighty Big4 auditors and audit fees as proxies for audit quality played effective roles in reducing the reporting lag. The remainder of the paper is as follows. The next section discusses the literature review and hypothesis development, followed subsequently by the research methodology and data. The next section presents the empirical results using inference from the panel standard errors (PCSEs) model estimation and conclusion.

## 2. Literature review

The theoretical view fundamental to the development of the study's hypotheses is the agency theory. Although perceptions were also observed from resource dependency theory and used to add to the perspectives underlying the agency theory, specifically, involving audit committee composition. The advocates of agency theory and resource dependency theory place more emphasis on human-factor dependent need and CG mechanisms such as audit committee and board of directors to stick together in order to achieve group corporate goals. The assumption of agency theory is that all parties involved in corporate contract act in self-interests (Jensen & Meckling, 1976; Eisenhardt, 1989). Moreover, advocate of agency theory indicate that the need for human-actor dependent and CG mechanisms be integrated such that the ability of the agents be minimized for acting in their own self-interests as against that of the shareholders. In other hand, resource dependency theory primarily centers on the influx and resources exchange between companies and suppliers of its resource. Those advocating for resource dependence theory suggest that a company reacts to, and is relying on organisations in the company's business environment that has control over the resources which is vital to its daily operations, and to which at a given time has slight control (Oliver, 1997; Hillman & Dalziel, 2003). Therefore, the goal and the human dependent CG mechanisms role are to reduce the company's resource power (Sultana et al., 2015).

Shareholders as audit committee members may therefore, institute higher level of commitment in companies operation in order to protect their investment (Mengena & Pike, 2005). Although to the best of our knowledge no prior study has investigated directly the relationship between financial reporting lag and shareholders as audit committee members however, indirect evidence suggest that audit committee with participating shareholders can influence the preparation and the release of financial report on timely basis, they can also enhance decision making as well as protecting the auditors independence (Carcello & Neal, 2003). They further argue that such type of audit committee with shareholders as members is likely to kick off external auditors who issue a going concern report, given that the circumstance of prediction is unclear from such qualification hence, likely to disagree with the auditor (Mengena & Pike, 2005). Consequently, regulators all over the world have through different corporate governance reports suggested a minimum of three audit committee members which comprises of directors as members (BRC, 1999), while the Nigerian audit committee has approved a minimum of six members comprises of three shareholders and three non-executive directors (SEC, 2011). However, the advocate of resource dependency theory argue that bigger audit committee has higher authority and ability to effectively monitor financial

reporting process (Kalbers & Fogarty, 1993), with a wide and diverse knowledge base (Karamanou & Vafeas, 2005). Consequently, large size of audit committee can experience losses and dissemination of responsibility (Karamanou & Vafeas, 2005).

It is therefore, expected that the audit committee members can bring their experience to bear when performing their duties (Kibiya, Che-Ahmad & Amran, 2016). Additionally, factors that can influence effective performance of the audit committee include; members' status, knowledge of accounting and industry expertise (Cohen, Hoitash, Krishnamoorthy & Wright, 2013; Liu, Tiras & Zhuang, 2014). Thus, shareholders as the new variable in accounting research can certainly open a new virgin area for debate. The shareholders are required to effectively play dual roles of being owners and exhibit the ability to monitor financial reporting process that can lead to quality financial report which can be evaluated within a reasonable time limit as contained in the regulation (Sunusi, 2011).

Moreover, shareholders as members of audit committee incline to restore timeliness of financial reporting and the committee's image as well as the whole corporate image (Nnadi, 1999), as investors and other stakeholders are more interested in firms timely financial report and the concern is noticed from companies with large shareholders equity (Aubert, 2009; Sengupta, 2004). With the coming on board of shareholders to sit in the audit committee coupled with the power of ownership, shareholders can effectively check executive directors (ED) powers regarding financial reporting functions and provide protection to the auditor in doing their duties (Enofe, Aronmwan & Abadua, 2013). Furthermore, shareholders presence has increased public confidence regarding financial report (Dibia, 2015).

In the same vein, shareholders equity holding gives them a definite power for sheer control of the company's activities and render effective monitoring (Kibiya et al., 2016). Prior research argues that the association exists between shareholders' investment and financial reporting quality (Levelle, 2002). Additionally, Indirect evidence from past research indicate that members of audit committee with investment in the firm can effectively provide vigilance and high monitoring ability that may lead to premium performance, quality financial report and without delay (Jensen, 1993; Shivasani, 1993; Mangene & Pike, 2005; Vafeas, 2005). Hence, larger shareholders' in the audit committee will have incentive to institute good corporate practice and monitor the managers. They equally, can enhance the process of financial reporting and timely release within the stipulated time (Kibiya et al., 2016). It is expected however, that shareholders in the audit committee to assume the leadership responsibility of the committee taken into cognizance of their investment because the chair of the audit committee is more responsible in overseeing the financial reporting process (Schmildt & Wilkins, 2012), and therefore, liable to the breakdown of reporting process (Engel, Heyes, & Wang, 2010; Faber, 2005; Srinivasa, 2005).

Moreover, Bromilow (2010) argues that the chair of the audit committee is also a member in the committee who ascertain the ability of the committee. Again, the primary contact point for between the committee and the management, external-internal auditors is the chairman (PricewaterhouseCoopers, 2003). Previous literature indicates that the audit committee chairman is one of the firm's higher positions and the hierarchy acts as a solid source of power (Hambrick & Mason, 1984; Finkelstein, 1992; Sharma, Naiker, & Lee, 2009). Additionally, Udueni (1999) regards the chairman of audit committee as a person with adequate power compared to members without chairing portfolio of any committees. Therefore, the inclusion of shareholders in the audit committees can uniquely play

important roles as chair of the committee exploring various avenues in facilitating effective performance of the audit committee (Carcello, Hermanson, & Zhongxia, 2011).

The most fundamental characteristic of audit committee is financial expertise (Abbott, Parker, & Peters, 2004; BRC, 1999; Krishnan & Visvanathan, 2008). Previous studies argue that audit committee with financial expert improves financial reporting process and the report's quality will be justified (DeZoort, Hermason, & Houston, 2003). The main functions of the audit committee is organising the meeting, control meeting discussion, establishing appropriate relationship with management, auditors and developing inter-personal relationship among members' (Bedard & Gendron, 2010). Audit committee provide link for interaction with internal, external auditors and management hence, critical to timely financial reporting (PricewaterhouseCoopers, 2003). This present study therefore, asserts that shareholders with financial expertise in the audit committee will improve timeliness of financial reporting. The definition of financial expertise was described as a person with education and experience in auditing or accounting (Abernathy, Beyer, Masli, & Stefaniak, 2014). Prior studies argue that the audit committee chairs of big company such as Enron which collapsed due high profile corporate scandals lacks relevant expertise (Batson 2003; Breeden 2003). Hence, a combination of expert power and structural power may bring about audit committee effectiveness.

Several studies have used the SEC definition to investigate the association between financial expertise in audit committee and reporting quality (see for example Dhaliwal, Naiker, & Navissi, 2010; Krishna & Vashvanathan, 2008). Although a study by Aier, Comprix, Gunlock, & Lee, (2005) document a significant difference in educational background of CFO background as only 20% among 500 CFOs were CFAs, MBAs 35% and only 5% had both qualifications. Consequently, shareholders as members of the audit committee are expected to have at least first degrees, its equivalent or higher degrees from a recognized university in Nigeria or abroad in the social or management related field of study. They can also have academic qualification which is lower than a first degree in related field from any tertiary institutions at home or from abroad. In addition, SEC (2011) under Part 'E' article 30 has placed more emphasis on combining IND and the shareholders in the audit committee. The regulation further stressed the need for literacy of the committee members and at least one of which must have accounting knowledge. Therefore, given the opportunity shareholders can perform effectively in the committee.

Agency theory has foreseen that a conflict may arise between principals and the agents on the management of the firm (Jensen & Meckling, 1976). Hence, the power of shareholders to control the firm is contained in both CAMA (2004) and SEC code (2011). First, part IV, V and VII of the Act has provided the fundamental rights of shareholders and how to apply them in term of voting power, resolutions, as well as rights to associations (activism), while part 'C' articles 22, 25, 26 and 27 have made details provisions on how the shareholders can have strong control over their investment and the company. Specifically, sections 331-334 of CAMA (2004) have clearly made a distinct relationship that put shareholders on top concerning contractual protection. Therefore, shareholders with 10% interest and above are powered by section 18 of the Act to call for a meeting at any given time as they deemed necessary to discuss the affairs of the firm when not satisfied. Additionally, shareholders have basic right to be served with 21 days' AGM notice along with the year-end annual report and accounts to their residential addresses for scrutiny and to prepare their minds for or against the content during AGM. In addition, shareholders are also entitled to yet another 21 days' notice to be served through at least two national daily newspapers under section 222 of the Act. Consequent upon the

plethora of powers given to shareholders by both company law and the code of corporate governance, it is hoped that shareholders can provide the much needed monitoring of financial reporting process in Nigerian listed firms. Blockholders in the audit committee will have influence to control, monitor managers on the timeliness of financial report, its process as well as the release of the report within the stipulated time (Kibiya et al., 2016).

Furthermore, audit quality is an element considered to be efficient in reducing financial reporting lag (Khalil & Ozkan, 2016). High-quality audit firms need high quality financial reporting to enable them protects their reputation and brand name against the uncertainty arising from clients misleading financial reports (DeAngelo, 1981; Francis & Wang, 2008). It is evidenced that big audit firms earn substantial higher fees and apply some portion of the audit proceed to build their technological know-how and hire capable hands with professionals skills to plan and utilize effective instruments for discovering misreporting (Choi, Kim, Liu, & Simunic, 2008; Craswell, Francis, & Taylor, 1995). It is also believe that external auditors can reduce information uncertainty in financial reports regarding material misstatements or omissions that would cause financial damage to investors and stakeholders (Balsam, Krishnan, & Yang, 2003). Further, the increased flow of institutional investors in developing capital markets led to the engagement of Big4 by most listed firms which are viewed as prerequisite for a successful business in those geographies (Gillan & Starks, 2003). Moreover, Lennox (1999) argues that positive capital market reaction led to auditor change from small to large audit firm, as big audit firms issue accurate information that is directed towards financial distress in their audit opinions due to their professional skills and technical know-how. Again, big audit firms are expected to be hired by firms with higher agency fees (DeFond, 1992).

In order to maintain investor's confidence, therefore, financial report has to be accurate and published in good time. The quality of accounting information is an important issue in corporate governance owing to the globalized modern technological innovations and business practices witnessed across the globe (Afify, 2009). The main factors affecting the quality of information in the annual report are punctuality and accuracy put at the disposal of external users. These factors are important ingredients which reduce the capital market-related information asymmetry (Owusu-Ansah & Leventis, 2006). Therefore, for investor's and other stakeholders' confidence to be maintained, a financial report has to be published in good time and be accurate. Financial market professional and regulatory authorities have taken steps in a bid to reduce reporting delay by improving audit quality in the financial statement.

However, external auditors are faced with reliability of information dilemma as a result of unnecessary delay in the process of financial reporting (Sultana, Singh, der Zahn & Mitchell, 2015). The length of time audit report takes is vital to timely information provision and positively has impact on firm value (Givoly & Palmon, 1982; Blankley, Hurtt, & MacGregor, 2014). Thus, financial reporting lag becomes critical factor in the today's corporate governance study. Prior studies reveal that external audit firms show strong incentive to achieve the audit tasks on time for the sake of sustaining high reputation, quality brand name and try to increase their share of the market (Afify, 2009; Owusu-Ansah & Leventis 2006; Modugu, Eragbhe, & Ikhatua, 2012). Previous studies confirm that the Big4 international audit firms are more likely to issue a qualitative audit opinion in record time than non-Big4 (Francis & Yu, 2009). However, several researches believed that audit fees also relates to audit quality, for example, following the seminal work of Simunic (1980), several factors were adjudged to be the determinants of audit fees such as the total assets, subsidiaries, industry type, foreign sales ratio to total sales, account

receivables ratio to total assets, inventories to total assets ratio, and audit opinions. Interestingly, such factors have been found to influence audit fees based on the jurisdictions in which they were used (Hay 2013). In addition, audit complexity, and business risk are also factors that determine audit fees due to operational scope and balance sheet composition of the client (Simunic & Stein, 1990). It may also be as a result of some undetected irregularities and misstatements due to audit risk which will subsequently lead to litigation and auditor's reputational loss (Basioudis, 2007). In Nigeria, the Securities and Exchange Commission (SEC) code of corporate governance permits listed companies to engage external auditors of their choice irrespective of whether they are Big4 or not Big4. Based on the above discussions, we hypothesize that;

***Hypothesis 1:*** Shareholders with financial expertise in the audit committee can reduce financial reporting lag in Nigerian listed firms.

***Hypothesis 2:*** Shareholders as audit committee chair can constrains financial reporting lag in Nigeria listed firms

***Hypothesis 3***: Blockholders in the audit committee can monitor financial reporting process and enhance timeliness in Nigeria listed firms

***Hypothesis 4a***: Negative relationship exists between Big4 audit firms and financial reporting lag in Nigerian Listed firms.

***Hypothesis 4b:*** Audit fees is negatively relate to financial reporting lag in Nigerian listed firms

## 3. Data, methodology and variables measurement

The data used in this present study are drawn from a sample of non-financial publicly listed firms in Nigeria over the period 2011-2015. The corporate government information regarding the composition of the audit committee and institutional holdings as well as the company's auditors were hand collected from corporate governance information section of the annual report and accounts of all firms. Financial data concerning annual disclosure were also sourced from the annual report and accounts. Firms that were included in the sample must meet the following criteria. First, firms must be listed on the Nigerian stock market as 31st December, 2011, must also have adequate data within the study period. Second, firms that were involved in acquisition or merger are no considered. Third, financial institutions were also not considered due to their unique and high regulations (Elyasiani, Wen, & Zhang, 2017). This process generates a final sample of 505 firm-year observations, representing 101 companies over 5 years' periods. Two proxies were provided to measure audit quality, the first one is using brand name auditors such as Big4 and the second one is audit fees. The decision to use the two proxies is due to inconclusive results characterized by most previous study on the best proxy for audit quality, for example, Marra et al. (2011), Ream, Rana, & Baker (2011), Mai Dao (2014), Lin, Lin, & Yen (2014), Khalif & Ozkan (2016) measured audit quality using the Big4 versus non Big4 dichotomy, while Che-Ahmad & Houghton (1996), Mohamed & Habib (2013), Abdulmalik & Che-Ahmad (2015) and Yaacob & Che-Ahmad (2011) used audit fees as proxy for audit quality. Hence, the study adopts both proxies in order to see the effect. The data collected from the sample was analyzed using inferences from corrected panel (PCSEs) regression and quantiles regression methodologies. Thus, we estimate the following regression models:

$$FRL_{it} = \beta_0 + \beta_1 SFEX_{it} + \beta_2 SACR_{it} + \beta_3 BLKH_{it} + \beta_4 BIG4_{it} + \beta_5 AUDFEE_{it} + \beta_6 IO_{it} + \beta 7 ROAit + \beta_8 GWTH_{it} + \beta_9 PROF_{it} + \beta_{10} FSIZ_{it} + \mathcal{E}_{it} \quad (1)$$

$$FRL^{(q)}_{it} = \beta^{(q)}0 + \beta^{(q)}{}_1 SFEX_{it} + \beta^{(q)}{}_2 SACR_{it} + \beta^{(q)}{}_3 BLKH_{it} + \beta^{(q)}{}_4 BIG4_{it} + \beta^{(q)}{}_5 ADFEE_{it} + \beta^{(q)}{}_6 IO_{it} + \beta^{(q)}{}_7 ROAit + \beta^{(q)}{}_8 GWTH_{it} + \beta^{(q)}{}_9 PROF_{it} + \beta^{(q)}{}_{10} FSIZ_{it} + \mathcal{E}_{it} \quad (2)$$

Where, FRL= Financial reporting lag, SFEX=Shareholder financial expert, SACR= Shareholder audit committee chair, BLHK= Blockholder, BIG4= Brand name Auditor, AUFEE= Audit fee, IO= Institutional investors, ROA= Return on assets, GWTH= Firm Growth, PROF= Profitability and FSIZ= Firm size.

Consequently, the study employed control variables mostly used in FRL studies to control for the variations across the sampled entity. They include; firm size, firm growth, return on assets and profitability. Thus, all variables and their description are depicted in Table 1.

TABLE 1. VARIABLES MEASUREMENT, DESCRIPTION AND SOURCES

| VARIABLE | MEASUREMENT | SOURCES |
|---|---|---|
| FRL | Difference between year-end and when the financial report is published | Aubert (2009) |
| SFEX | A dummy variable, 1 if a shareholder is a financial expert, 0 otherwise. | Abernathy et al (2014) |
| SACR | An indicator variable 1 if shareholder is a Chairman, 0 otherwise | Liu et al (2014 |
| BLKH | A dummy variable, 1 if a shareholder is a blockholder, 0 otherwise. | Abernathy et al (2014) |
| BIG4 | An indicator variable 1 if a firm is audited by a Big4 auditor, 0 otherwise. | Khalif & Ozkan (2016) |
| AUFEE | Natural log of audit fees | Jubb & Houghton(1996) |
| IO | 5% or more shares held by investors. | Dou et al. (2013) |
| ROA | Net income divide by total assets | Ashbrough (2003) |
| GWTH | Measured by market equity value to book value | Gavers (1995) |
| PROF | Net profit divided by year-end owner's equity | Mollik & Bepari (2012) |
| FSIZ | Is the natural logarithm of lagged total assets | Carpenter (2002) |

Sources: Author's compilation.

Various measures were applied to achieve normality assumption for this study. First, Wooldridge test for auto/serial correlation was conducted and the null hypothesis indicates the presence of auto/serial correlations in the model showing the value of F (1, 97) =6.998 and Prob > F = 0.0095. To determine the presence of heteroskedasticity, Modified Wald tests for group-wise heteroskedasticity and Breush-Peagan tests were conducted. The results revealed that both the null hypotheses were rejected, as all the p-values were at 1% levels of significant with the value of chi2 (98) = 1.9e+06 and Prob>chi2 = 0.0000 and chi2(1) = 49.67 and Prob > chi2 = 0.0000 respectively. This,

therefore, indicates the presence of heteroskedasticity in the study model. It further means that the variation in the model is constant. Hence, to overcome this problem, the study employed the robust methodology approach for the model. Consequently, the Hausman specification test was also performed to select between the Fixed Effect (FE) model and the Random Effect (RE) model (Green, 2008). The Hausman specification test revealed an insignificant p-value of 0.4113 favoring the use of RE model. However, due to the presence of heteroskedasticity and auto/serial correlation observed earlier, the study adopts the robust standard errors inferences to correct the problems by using PCSEs regression method (Hoechle, 2007).

## 4. Results and discussion

Table 2 reveals the descriptive statistics of the study variables. As can be seen in the table, FRL had a mean value of 95 days with minimum and maximum values of 0 day and 455 days respectively, indicating that certain firms are complying by publishing their report within the expected time limit hence, has no delay for even a single day. However, there are firms who had a maximum of 455 days which clearly violate the SEC regulation of 90 days. Perhaps weak enforcement could have been the reason for such a delay. SFEX as one of categorical variables indicates that 86.14% of shareholder in the audit committee had financial expertise with a maximum frequency of 435, while 13.86% had no financial expertise with a minimum value of 70 frequencies. It means therefore that the shareholders in the committee are the majority hence, complying with SEC regulation that at lease a member must have finacial expertise. Their presence is expected to yield fruitful result regarding the timeliness of financial report (Kibiya et al., 2016).

Table 2 further reveals that 95.05% of SACR represents audit committees of listed firms in Nigeria are chaired by shareholders with 480 frequencies. Consequently, shareholders are expected to insitute best practise and the desire changes by bring other members of the committee to function effectively. Because the committee chairman serves as a point of contact for all the stakeholders such as the auditors both internal and external as well as the management (PriceWaterhouseCoopers, 2013). Moreover, Table 2 shows that only 4.5% of audit committee is chaired by non-shareholders with a minimum frequency value of 25. Additionally, only 29.90% of shareholders in the audit committee are BLKH with at least 5% and above holding. Thus, the presence of blockholders in the audit committee is expected to improve on the reporting process and safeguard the auditors' independence by reducing managers' excesses. However, the majority of BLKH in the committee which constitutes 70.10% are not blockholders.

In the same vein, AUQ is critical to investors regarding the timeliness of financial reporting to which its readability within the stipulated time becomes vital to stakeholders (Ahmed & Che-Ahmad, 2016). Consequently, section 357(1) of the CAMA (2004) requires that each firm to hire the service of auditors to verify the financial statement and report to shareholders accordingly. Therefore, the study used Big4 as proxy for AUQ to be able to examine its effect in the wake of the adoption of IFRS. As a categorical variable therefore, Table 2 indicates that Big4 audit firms audited 53.07% of firms while non-Big4 has a share of 46.93% of Nigerian firms. This means that on average the quality of audited financial report of a firm will be increased by 56% if the firm is audited by a Big4. AUFEE as alternate proxy to AUQ, is shown in Table 2 with the values that ranges from a minimum of N350, 000 and a maximum of N145, 000.000 Nigerian Naira (The exchange rate is N197 for USD 1). As argued by some previous studies, audit pricing is

determined by client business environment and complexity (Yaacob & Che- Ahmad, 2012; DeGeorge, Ferguson, & Spear, 2013).

Furthermore, Table 2 shows that IO's mean value is 0.1548 which is explained to mean that on average, 15.48% of listed firms in Nigerian are owned by institutional investors. Moreover, the values of 0 and 0.4892 indicate minimum and maximum respectively. It means, therefore, that 0 represents firms that are not owned by institution while the maximum suggests that institutional investors owned 48.92% of listed firms in Nigeria. The IOs presence in capital market provides an important apparatus for effective corporate monitoring (Kim & Yoon, 2016; Dou, Hope, Thomas, & Zou, 2013). As for the control variables, Table 2 reveals the mean value of PROF as 4.72%, ROA 1.943% GRWTH 1.973 and FSIZE N4.791 billion respectively. The standard deviations for all the variables are not far away from the mean hence, the value can be accepted because they have low risk of being wrong assumption.

TABLE 2. DESCRIPTIVE STATISTICS (N=505)

| CONTINUES VARIABLES | MEAN | SD | MIN | MAX | VIF |
|---|---|---|---|---|---|
| FRL | 95.453 | 59.917 | 0 | 455 | |
| AUFEE | 15103.76 | 18522.6 | 350,000 | 145,000,000 | 1.51 |
| IO | 0.155 | 0.135 | 0 | 0.489 | 1.14 |
| ROA | 1.79 | 13.197 | -93.26 | 53.96 | 1.78 |
| GWTH | 1.973 | 6.267 | 35.9 | 52.73 | 1.21 |
| LFSIZ | 4.791 | 0.844 | 2.542 | 7.454 | 1.57 |
| PROF | 4.728 | 19.002 | -97.35 | 86.31 | 1.63 |
| CATEGORICAL VARIABLES | | | FREQUENCY | PERCENTAGE | |
| SFEX | | | | | 1.28 |
| *Shareholder* | | | 435 | 86.14 | |
| *Non-shareholder* | | | 70 | 13.86 | |
| SACR | | | | | 1.23 |
| *Shareholder* | | | 480 | 95.05 | |
| *Non-shareholder* | | | 25 | 4.95 | |
| BLKH | | | | | 1.10 |
| *Shareholder* | | | 151 | 29.90 | |
| *Non-shareholder* | | | 354 | 70.10 | |
| AUQ | | | | | 1.25 |
| *Big4* | | | 268 | 53.07 | |
| *Non-Big4* | | | 237 | 46.93 | |
| Mean VIF | | | | | 1.37 |

Sources: Author's compilation.

Table 3 below depicts the correlation between FRL and all the independent variables employed in the study. The value of SFEX coefficient shows a positive relationship. This suggests that FRL and SFEX are going in the same direction, as the FRL increases so also SFEX although not in the same proportion as the correlation value 0.07. However, correlation is insignificant. As expected, the correlation between FRL and SACR is negative as evidenced from the sing of the coefficient with value of -0.11 with the probability of 1% level of significant. This indicates that SACR can constrain the magnitude of FRL (Kibiya et al., 2016). Contrary to our expectation however, the correlation between FRL and BLKH is positive and insignificant with the value of 0.04 as shown in Table 3. This indicates that BLKH in the audit committee may not necessarily

perform well as audit committee members. Furthermore, the correlation between Big4 as the first proxy audit quality is negative and surprisingly insignificant with the value of -0.05. However, the second proxy which is AUFEE correlate negatively with FRL showing -0.22 values as expected. It further suggests that AUDEE can play an important role in reducing financial reporting delay with the probability values of 0.0000 and 1% level of significant. Moreover, the correlation IO and FRL is positive and correlate at 10% level of significant with 0.11 as can be seen in Table 3. The positivity suggests that IO can increase FRL. In the same vein, the correlations amongst the remaining control variables did not significantly differ from our anticipation as the highest value of -0.22 between AUFEE and FRL, while amongst the independence the highest correlation is between AUFEE and Big4 with 0.52. Consequently, the correlation matrix has no problem of multicollinearity as all coefficients are below the suggested threshold of 0.8 Field (2009). Additionally, the mean value of variance inflation factor (VIF) of 1.37 supported that no high correlation exists amongst the study variables.

TABLE 3. CORRELATION MATRIX

| | FRL | SFEX | SACR | BLKH | BIG4 | AUFEE | IO | PROF | ROA | GWTH | LSIZ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FRL | 1.00 | | | | | | | | | | |
| SFEX | 0.07 | 1.00 | | | | | | | | | |
| SACR | -0.11* | 0.35*** | 1.00 | | | | | | | | |
| BLKH | 0.04 | 0.16* | 0.09 | 1.00 | | | | | | | |
| BIG4 | -0.05 | 0.01 | -0.09* | -0.09 | 1.00 | | | | | | |
| AUFEE | -0.22*** | 0.11*** | -0.11 | -0.02 | 0.52*** | 1.00 | | | | | |
| IO | 0.11* | 0.16*** | -0.03 | 0.12* | -0.21*** | -0.23*** | 1.00 | | | | |
| PROF | -0.19*** | -0.09* | -0.06 | -0.01 | 0.12* | 0.15** | -0.13** | 1.00 | | | |
| ROA | -0.25*** | -0.17*** | -0.18** | -0.10* | 0.17*** | 0.22*** | -0.14** | 0.61*** | 1.00 | | |
| GWTH | -0.18*** | -0.01*** | -0.11* | -0.05 | 0.21*** | 0.27*** | -0.08* | 0.27*** | 0.35*** | 1.00 | |
| LSIZ | -0.14** | 0.17*** | 0.03 | -0.11** | 0.36*** | 0.72*** | -0.12* | 0.21*** | 0.22*** | 0.21*** | 1.00 |

Sources: Author's compilation.

Table 4 below clearly shows that the greater numbers of the sample firms are from services sector with 20.79% and the least samples were drawn from agriculture with only 3.96%. Thus, the mean financial reporting lag for non-financial publicly listed Nigerian firms according to the table is 81 days. The table further shows that oil and gas as well as services sectors were in full compliance of the regulatory time period by completing their financial reporting process within the 90 days'. However, the longest period of 455 and 365days are from Health and consumer sectors respectively. Moreover, the shortest delay comes from consumer sector as well with 12 days minimum delay. Further evidence suggests that most firms are yet to fully adhere to the SEC 90 days rule. Although overall performance if compared with other emerging economies such as Malaysia with Minimum and maximum of 19 days and 332 days (Na'imi, Nor, Rohami, & Wan-Hussin, 2010), Indonesia with minimum and Maximum of 12 and 164 days Rusmin & Evan, (2017), Malaysia, 20 and 442 days Che-Ahmad & Abidin (2009), Egypt with 19 and 115 Afify (2009) and Zimbabwe with 17 and 115 days respectively Owusu-Ansa (2012), the current status for Nigeria regarding reporting lag indicates that there is improvement due to the shareholders' involvement in the audit committee as compare to some Nigeria's previous studies on reporting timeliness for example, Ilaboya & Christian (2014) report a minimum of 51 days and maximum of 194 days, while Ahmed & Che-Ahmad (2016) using a 5 year period from 2008-2012 for financial institution report a minimum and maximum days of

55 and 330 respectively. In the same vein, Modugu et al., (2012) report 20 days and 276 and Dibia & Onwuchekwa (2013). Overall reporting lag in Nigeria is steadily improving.

TABLE 4. DESCRIPTIVE STATISTICS OF FINANCIAL REPORTING LAG BY SECTORS

| Sectors | Obs | Number | Sector % | Mean | Min | Max |
|---|---|---|---|---|---|---|
| Industries | 85 | 17 | 16.83 | 84 | 19 | 212 |
| Constructions | 25 | 5 | 4.95 | 90 | 30 | 211 |
| Agriculture | 20 | 4 | 3.96 | 81 | 56 | 116 |
| Conglomerates | 25 | 5 | 4.95 | 162 | 82 | 283 |
| Consumer | 100 | 20 | 19.8 | 83 | 12 | 365 |
| Health | 40 | 8 | 7.92 | 113 | 25 | 455 |
| ICT | 35 | 7 | 6.93 | 91 | 29 | 241 |
| Oil & gas | 70 | 14 | 13.86 | 109 | 0 | 325 |
| Services | 105 | 21 | 20.79 | 91 | 0 | 264 |
| Total | 505 | 101 | 100 | 81 | 0 | 116 |

Sources: Author's derivation.

Table 5 depicts the regression results based on Panel Corrected Standard errors (PCSEs). The results indicate that shareholder with financial expertise (SFEX), Shareholder as audit committee chair (SACR), block shareholder (BLKH), brand name audit firms otherwise known as big4 (BIG4) and audit fees (AUFEE) have a significant negative effect on financial reporting lag (FRL) at 1% and 5% levels of significant respectively. This suggests that an increase in the presence of SFEX, SACR and BLHK will lead to significant decreases of FRL by 22, 68 and 3 days respectively. Further, Big4 can also reduce the extent of delays by 14 days due to their expertise and technical know-how (Khalif & Ozkhan, 2016). Our analysis considerably beg to disagree with Apadore & Noor (2013) and Afify (2009) who could not find any evidence to confirm a negative association between Big4 and FRL. Arguably, Big4 auditors are more likely to work extra hard to reduce the reporting time lines when compared to their non-Big4 counterparts (Leventis, Weetman, & Caramanis, 2005; Al-Ajmi, 2008; Rusmin & Evan, 2017). In the same vein, AUFEE can significantly enhance in reducing reporting timeliness by 39% irrespective of either Big4 or not, this could be attributed to the complex and risky nature of the business environment as well as the recent paradigm shift to IFRS as the new reporting language (Yaacob & Che-Ahmad, 2012). Other study document that the fear of aftermath of the earnings announcement which sometimes results to litigation also determines the audit fees (Aubert, 2009). Contrary to our expectation, the results in Table 5 indicates that institutional investors (IO) is positive and insignificantly relates to FRL. Bushee (1998) argues that in most cases IOs act like traders rather than owners. Consequently, reduce pressure on managers on the reporting process so long as there is adequate volume of trade that yield substantial returns, thus, those types of IOs are referred to as transient investors as they fail to give effective monitoring (Bushee, 1998). Perhaps this could have been the case with Nigeria as the result indicates.

On the control variables, the coefficient of FSIZ is also negatively relate to FRL in model 1 regression and statistically significant at 5% level. Consequently, this finding supports the debate that large firms can put more pressure on auditors for timely reporting. Further, it suggests that strong internal control is a condition necessary to guarantee audit timeliness (Che-Ahmad & Abidin, 2009; Ahmed & Che-Ahmad, 2016). Moreover, ROA, GWTH are also negatively associates with FRL at 5% levels of significant.

TABLE 5. RESULTS USING PANEL CORRECTED STANDARD ERRORS (PCSES) AND QUANTILE REGRESSION

| VARIABLES | MODEL1 | MODEL2 | | |
|---|---|---|---|---|
| | | Q(0.25) | Q(0.50) | Q(0.75) |
| SFEX | -21.69*** | -5.505 | -11.62 | -13.64** |
| | (-3.314) | (-7.118) | (-9.202) | (-5.998) |
| SACR | **-68.26*** ** | **-44.67*** ** | **-47.24*** ** | **-72.51** ** |
| | (-12.41) | (-16.03) | (-10.85) | (-30.32) |
| BLKH | -3.655** | -3.608 | -3.118 | -9.944 |
| | (-1.815) | (-5.089) | (-3.294) | (-10.71) |
| BIG4 | -13.74*** | -0.771 | -2.915 | -20.61** |
| | (-3.378) | (-4.471) | (-4.027) | (-10.23) |
| AUFEE | -38.86*** | -1.614 | -15.90*** | -33.95** |
| | (-5.405) | (-8.211) | (-4.809) | (-14.2) |
| IO | 2.26 | 31.54** | -1.022 | -25.44 |
| | (-9.359) | (-14.18) | (-10.91) | (-38.39) |
| PROF | -0.168 | -0.00602 | 0.0174 | 0.0599 |
| | (-0.257) | (-0.206) | (-0.217) | (-0.391) |
| ROA | -0.817** | -0.441 | -0.621* | -1.571** |
| | (-0.356) | (-0.311) | (-0.324) | (-0.702) |
| GWTH | **-0.793** ** | **-0.637** ** | **-0.878** ** | **1.059*** ** |
| | (-0.368) | (-0.316) | (-0.387) | (-0.381) |
| LFSIZ | -7.673** | 2.449 | -2.448 | -2.223 |
| | (2.995) | (3.299) | (2.888) | (9.983) |
| Constant | 253.7*** | 113.8*** | 169.9*** | 289.8*** |
| | (-17.1) | (-23.75) | (-19.1) | -56.13 |
| N | 101 | 101 | 101 | 101 |
| Observations | 495 | 495 | 495 | 495 |
| R-squared | 0.153 | 0.071 | 0.060 | 0.096 |

Notes: Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, Values in **bold** are showing significant results that are consistent with both Standard Errors (PCSEs) and quantiles regression. Mode1=PCSEs regression, Model 2= quantiles regressions.

In order to check the robustness and the consistency of the PCSEs regression results, this present study ran a quantiles regression model using 0.25, 0.50, and 0.75 quantiles. The result of the quantiles regression is depicted in model 2 of Table 5. Amongst the explanatory variables therefore, only SACR and GWTH have a homogenous effect on FRL across different quantiles hence consistent with the results of PCSEs regression model. Similar to some previous studies, the audit committee chair becomes the initial point of contact for all the stakeholders (PricewaterhouseCoopers, 2003). The chairmanship position therefore, represents one of the highest hierarchies in the firm. It provides a solid source of power (Hambrick & Mason, 1984; Finkelstein, 1992; Sharma et al., 2009). Thus, as demonstrated by the result in Table 5, shareholders as audit committee chairs can adequately address the issue of financial reporting delay. Other explanatory variables in the study indicate heterogeneous association with FRL across quantiles. This further means that the relationship both at lower or upper level of the dependent and independent variables is not homogenous as demonstrated by this study except for AUFEE which is also homogeneous at 0.50 and 0.75 quantiles but heterogeneous at the lowest quantile of 0.25. This further indicates the importance of a shareholder to be the audit committee chair.

## 5. Conclusions

Timeliness remains one of the vital aspects of annual corporate reports across the globe. This study is the first to examine the impact of shareholders as members of the audit committees of all firms listed on the Nigerian Stock Exchange (NSE). Specifically, the study considered non-financial companies. We investigate the relationship between financial report lag and three characteristics of audit committee characteristics, namely financial expertise, audit committee chair and block shareholding to which the shareholders as new comers in to the committee performed well. The study also examines audit quality by using two important proxies namely Big4 and audit fees. This study finds evidence consistent with Kibiya et al. (2016) who document that financial expertise and chairman of the committee enhance financial reporting process which lead to the timely release of financial report which have direct effect to capital market. This present study also confirmed that Big4 audit firms statistically and significantly perform faster audit work than non-Big4 firms in Nigeria. Audit fees as alternate proxy for audit indicate that it is effective in reducing reporting delays. Contrarily, institutional investors were passive regarding the timeliness of financial reporting, this suggests that they act like transient investors who only collect returns and leave (Bushee, 1998). All the controls variables are negatively significantly and statistically effective in reducing delays in financial reporting except for PROF which shows positive and insignificant association with FRL. our findings are robust to the methodological consistency of using panel corrected standard errors (PCSEs) and the quantiles regressions.

Consistent with other empirical researches, our study is not without certain limitations. First, the time period of financial reporting lag considered in this study reflects the financial reporting process from the year-end to the date when the report is published. We do not therefore consider the date when the auditor sign the report in our analysis. Second, there are various potential variables that can also explain FRL such as complexity, industry specialist and auditor reputation which our study failed to capture. Further, our study is only limited to shareholders in the audit committee alone, without considering other audit committee members such as the non-independent executive directors. Finally, this study did not take into account the new reporting language i.e. International Financial Reporting Standards (IFRS) adoption. Future studies can seek to investigate shareholders effort regarding timeliness in financial institutions as well as the complexity of the adopted IFRS.

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