Effects of Corporate Governance on Financial Reporting Lags: Evidence from Nigerian Listed Deposit Money Banks

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Abstract

This paper assessed the effects of corporate governance on financial reporting lags, with particular emphasis to Nigerian listed deposit money banks. It is based on secondary data gathered from the published annual report and accounts of eight (8) sampled banks for the period of 5 years from 2010 to 2014, selected according to their data availability and time constrain from fifteen (15) that are operating on the floor of Nigerian Stock Exchange as at December, 2016. The study make used of panel data regression analysis using STATA 14.0. Based on the results from the analysis, the study founds out that all the regression results with the five of the independent variables have positive and significant relationship with the FRL. This mean that complying with corporate governance mechanism reduces FRL by at least one and half months. It was therefore recommends that, in the sense that using the service of experts and up to date monitoring and supervision reduces unnecessary delay in publishing the financial report by listed commercial banks in Nigeria. Hence, there is need for shareholders to lay their support to companies, so that they can employ professionals/skilled labour. Therefore, there is need for listed Nigerian commercial banks to increase the number of their independent directors to add to the board composition. This will lead to timely release of published accounts to enable economic decision by shareholders in respect of their investment in the banks. Possibly they can adopt the use of a two tier board to reduce the effect of agency problems/cost.

Key words: corporate governance, financial reporting lags, deposit money banks, audit committee size, board composition, board meeting frequency

Introduction

Timeliness represents an important character to be imbibed by all components of corporate governance for the purpose of actualising stakeholders' confidence on a set of corporate financial report and account. In view of this, corporate bodies are expected to release their statement of affairs three months after the end of their reporting date (CAMA, 1999 as amended). The ability of corporate bodies to release financial report on timely basis will enhance the reliability of the statement and its relevance to future decision making of the users of the report. This will further indicate entity's willingness and total compliance with the International Financial Reporting Standard (Munsif, Raghunandan, and Rama 2012; Clatworthy and Peel, 2016).

As a directive to all corporate bodies in Nigeria, CAMA (2004) mandated all Nigerian listed firms to make available their audited financial statement latest by March 31, for a continuing business. This is to enable auditors start and finalised their review procedures within the three months from December 31 to March 31 provided their accounting year end is December 31. The main component of the corporate governance shouldered with this responsibility is the Board of Directors (Ishaqa and Che-Ahmad, 2016). The board in its governance, supervisory and monitoring roles is expected to ensure that, stakeholders' interest is maintained and protected

through the provision o relevance and up to date information, capable of influencing their future business decision in respect of buying, holding and selling interest in the entity. This necessitates the idea of Financial Reporting Lag (FRL).

FRL refers to the number of cycles/days that takes a corporate entity to make available its financial report to intended users. These days comprise of the first day after the accounting year end to be stipulated March 31 by CAMA. This might to some extent influence the behaviour of stock market participants, especially within the semi strong form efficient market (Watson and Head, 2013; Ishaq and Che-Ahmad, 2016). Because individuals who have access to information that has not yet been made public ('insider information') will be able to buy or sell the shares in advance of the information becoming public, and make a large personal profit. Thus insider information will indicate whether the share price is likely to go up or down, and the individual can buy or sell accordingly. Studies on FRL by corporate entity is somehow scanty, possibly suggesting lack of interest on the stock market participant on the disclosure timing than the intrinsic important of the reported financial numbers (Aubert, 2009). Given the importance of timeliness, section 409 of Sarbanes Oxley Act for example mandated listed United State entities to ensure constant and speedy follow of material information to the public related to the financial and operational activities of the entity (Munsif, Raghunandan & Rama 2012). This have resulted to enhancing the information preparation and supply process by stipulating maximum period of three months after the entity's financial yearend, that is between December 31 to March 31 of every fiscal year.

Despite bunch of available empirical study of FRL, there is the need to analyse and explore corporate Board effect on the FRL and how the board tackle its governance lapses in relation to the FRL (Ishaq and Che-Ahmad, 2016). This research seeks to assess whether the board of directors through its individual committees reduces the negativity of FRL to corporate stakeholders.

Previous studies analyse audit reporting lags across the globe on emerging countries. These include Che-Ahmad and Abidin, (2008) whose findings reveals similarities between Malaysian environment and that of Western countries in relation to board size; directors' holdings and complexity; audit firm size and opinion; and profitability as determinants of reporting lag. Study by Afify (2009) in Egyptian reveals that CEO duality role, audit committee exposure and board independence significantly affect reporting lag, together with corporate size, industry nature and profitability as controlling variables.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Financial Reporting Lag (FRL)
Corporate managers are vested with the power to consider the appropriate timing for disclosing and reporting their stewardship and accountability to shareholders, potential investors and creditors. This can be done by precise analysis and assessment of future expected benefit/cost between early and late disclosure (Aubert, 2009). It therefore follows that inverse relationship exists between information value and the period taken to make available a set of financial statements (Sultana, Singh and Zahn, 2015). That is the longer the time taken to release the financial report, the stronger the signals to the market (possibly signs of negative information

from the statement). However, as part of fulfilling the listing requirement at Securities and Exchange Commission (SEC), all public limited companies have been required to produce yearly financial report and account and file same with the SEC in Nigeria. This is also applicable to United Kingdom and the United State of America.

Thus FRL is the time taken by an entity to make available its financial statement to its users. The period comprises the day in which it closes its accounting record (as yearend to the date) to the date of release, usually from December 31 to March 31 in Nigeria. The lag period of three months will allow the external auditor of the entity to express their professional opinion as requested by CAMA in respect of the "true and fair view" of content of the financial statement and state of affairs and actual operations of the entity. However, IFRS conceptual framework for general purpose financial statement requires, financial statement of an entity to be reliable in all respect of its affairs and be relevant in influencing the decision making power of its intending users, hence in addition to being relevant it must also be available on timely basis (Ashton, Graul & Newton, 1989).

Nevertheless, for more than three decades FRL research has been taken place. Among them includes, Reheul, Caneghem and Verbruggen, (2013) observed that, reporting lag for Belgium non-profit organisations (NPO) are significantly higher as compared with profit oriented entities. This might be due to the low or absence of any regulatory requirement on the NPO to publish their financial statement. They therefore report as to their discretion. Blankley, Hurtt, and MacGregor, (2014) in their own study observed that firms that restate or adjust their financial statement experienced abnormal reporting lag, due to time pressure to meet up with the stipulated dateline. Aubert (2009) studies' on determinants of corporate financial reporting lag: the French empirical evidence reveals that, firms with liquidity and going concern problems tend to shorten their reporting lag in order to reduce litigation cost. This will enable them to reduce the effect of bad news on their firm.

Audit committee Size

Audit committee is a committee established by the board of an entity to oversee the accounting, financial reporting process and the audit process of the entity. The committee is regulated by the provisions of CAMA 2004 in Nigeria. On the other hand, audit committee size refers to the number of directors that make up entire representative of an entity's total audit committee. In Nigeria, section 359 (4) of CAMA 2004 stipulates that, audit committee should comprise seven members representing equal number of shareholders and directors with not more than one executive director (Tuta, 2014). The essence of making the numbers to be is to allow for a simple majority in the situation of disagreement on matters pertaining to the general interest of the shareholders. Al-Matari *et al., (*2012); Abbott et al. (2004); Xie et al. (2002); Klein (2002); and Dezoort et al. (2001) observed that size of the committee determines its effectiveness in the discharge of it governance role to the best interest of the entity. However, study by Hamdam *et al*., (2009) within the Jordanian companies finds negative relationship between audit committee size and earning management. Thus, it was hypothesised that:

H₁: There is a significant relationship between audit committee size and FRL in   Nigerian deposit money banks.

Board Composition

Board composition with required number of members (at least eight) representing both the executive and non-executive directors played a significant role in achieving the governance role of an entity (Salihi and Jibrin, 2015). Accounting researchers debated in respect of which board composition (small or large) effectively and efficiently qualitative management and reporting responsibilities of an entity (Hassan, 2016). Dimitropoulos (2010) opined that communication gap might possibly emanate in an organization that adopted large size, thereby making reaching conclusion on important issues more difficult. However, some commentators argue that efficiency will be achieved within a large board composition due their collective expertise and enhance reporting frequency (Hussainey and Wang, 2010; Akhtaruddin *et al*, 2009; Ezat and Al-Masry, 2008). In view of these positions, it is therefore hypothesised that:

H2: There is a significant relationship between board composition and FRL in Nigerian deposit money banks.

Board Meeting Frequency

Board meeting represent an avenue for corporate directors to meet and discuss the operational and financial implication facing their entity for the benefit of stakeholders. Thus, the meeting frequency will enable the directors to exercise strong and effective control mechanism capable of curtailing anomalies within an entity (Apadore and Noor, 2013). In view of this, a minimum of four meeting is required to enable them scrutinise entity's financial and operational activities and whether such are in line with the laid down procedures, rules and regulation (Mohamad-Nor et al., 2010; Cheung et al, 2010). Hence, it was hypothesised that:

H3 There is significant relationship between directors' meeting frequency and FRL in Nigerian deposit money banks.

Control Variables

Total Assets

This represents the book value of the sampled banks' assets which denoted using natural logarithm (logtotalassets). There is the expectation of lower FRL if the total asset of a bank is higher compared to when it is lower (Anderson et al, 2003).

Loss

This is measured by the banks profit or loss using dummy variable of one if the bank reported net profit and zero if net loss is reported by a bank in any financial year (Alali and Elder, 2014).

METHODOLOGY

The aim of this study as mentioned earlier is to examine the effects of corporate governance on financial reporting lags on listed deposit money banks in Nigeria. The study utilises secondary data extracted from the annual reports and accounts of the seven (7) sampled banks. The banks were selected based on data availability. The time frame for the study is five (5) years, covering the period 2010 to 2014. Panel data regression technique was employed to determine the link between the study variables. Panel regression model is considered to be more appropriate because the data of this study are cross sectional over several time periods (Sani and Chabbal, 2017). The sampled firms are:

Table1: Sampled Banks

S/N	NAME OF BANKS	YEAR OF ESTABLISHMENT	YEAR OF LISTING
1	Access Bank Plc	1989	1998
2	Diamond Bank Plc	1990	2005
3	Eco Bank Nigeria Plc	1985	2006
4	Fidelity Bank Nigeria	1987	2005
5	Guaranty Trust Bank	1990	1996
6	Sterling Bank Plc	1960	1993
7	Wema Bank Plc	1969	1991

The panel regression function below is employed to determine relationship between the dependent and independent variables as used by Abor (2007) with some modifications.

$$FRL_{i,t} = \beta_0 + \beta_1 ACSIZE_{i,t} + \beta_2 BCOMP_{i,t} + \beta_3 INDEPDIR_{i,t} + \beta_4 BMEET_{i,t} + \beta_5 BATTEND_{i,t} + \beta_6 LOGTOTASSET_{i,t} + \beta_7 LOSS_{i,t} + e_{it} \qquad (1)$$

Where: FRL means financial reporting lag, AUDQ, BCOMP, INDEPDIR, BDUR, BMEETFRQ, BATTEND represents audit quality, Size of the Board, Indep Directors, Board Duration (Years), board meetings, Board Mtg Attendance. LOGTOTASSET and LOSS represent log of total assets and net loss (control variables) respectively.

While the symbol "e" denotes error term which is the white noise process and the subscripts 'it' indicates entity over time.

RESULTS AND DISCUSSION

Table 2: Descriptive statistics of the study variables

sum bcom bmeetfrq battend indepdir acsize logtotasset dumm nomcom logtt

Variable	Obs	Mean	Std. Dev.	Min	Max
Bcom	40	13.5	3.922323	0	19
Bmeetfrq	40	6.175	2.781694	0	12
battend	40	58.979	44.35562	0	100
indepdir	40	1.95	0.782829	0	3
acsize	40	4.575	2.610506	0	9
logtotasset	40	12.85147	10.49607	0	25.22484
dumm	40	0.4	0.496139	0	1
nomcom	40	3.825	3.087506	0	10
logtt	40	6.01025	0.338742	5.34	6.64

Table 2 above provides a summary of descriptive statistics of the dependent and independent Variables. The results show that the average board size is 13.5 with a maximum of 19 board members and a minimum of 0 member, this reflect the status core of Nigerian public companies

(Sani and Chabbal, 2016). The firms' board under review appears to be strongly independent, given that the independent directors in the board are 200% as displayed by the summary statistics. This signifies that most of the firms complied with the provision of the Nigerian code of corporate governance. The code is designed to ensure balanced of power between executives and non-executives directors and the protection of shareholders interest in the firm. Furthermore, the standard deviation of 3.09 indicates a wider dispersion within the nomination committee also reemphasised the independence of the board in discharging its governance role, given the mean value of 400% with a maximum member of 10.

The standard deviation of 10.5 across the firms indicates a wide dispersion with regards to the total assets of the firms. This is supported by the logarithm of 6% with minimum and maximum value of 5.34 and 6.64 respectively.

Table 3: Regression Results

VARIABLES	1 OLS	2 FIXED	3 ROBUST
BMEETFRQ	0.47644	0.4764403	0.47644
BATTEND	0.01623	0.0162291	0.01623
INDEPDIR	-0.12327	-0.1232687	-0.12327
ACSIZE	0.40767	0.4076656	0.40767
SIZE	0.0329	0.0328971	0.0329
dumm	0.58657	0.586572	0.58657
NOMCOM	0.38816	0.3881588	0.38816
LTASSET	4.04234	4.042336	4.04234
Constant	-18.4615	-18.46146	-18.4615
R^2	0.6106	0.7230	0.7230

Table 3 above indicates the model adequacy and its fitness as measured by the R^2 of 61% and 72% ordinary least square, fixed effect and the robust regressions. In view of this outcome, table 3 has been subjected to robust estimation to ensure that the model meets the basic OLS assumptions. The model is free from the problems of heteroskedasticity, normality, model specification and multicollinearity (Ishaq and Che-Ahmad, 2016).

Hence it shows the panel data regression result of the ordinary least square, fixed effect and the robust regressions. Both the regressions shows that five of the independent variables have positive and significant relationship with the FRL. This mean that complying with corporate governance mechanism reduces FRL by at least one and half months. This result confirms the findings of Ishaq and Che-Ahmad, (2016). This is due to their oversight and governance role in ensuring timely and up to date provision of relevant information to shareholders in general.

Furthermore, addition of one independent director within the board reduces the FRL by approximately 12 days. Moreover, the result further indicates that company size plays a significant role in reducing the FRL by at least 4 days on average. This might be connected to the used of professionals and highly skilled man power by the company and continues monitoring

and supervision by regulators and trade unions, as reported by (Carslaw and Kaplan, 1991; Hossaini and Tailor, 1998; Ashton, *et al.,* 1989).

Conclusion

The paper assesses the relationship that exists between corporate governance features such as board meeting frequency and attendance, independent directors composition, nomination committee size and audit report lag in Nigerian listed banks. A sample of 8 listed commercial banks was selected for the study, due to data availability. Data were collected and analysed from the corporate governance report using Bloomberg terminal of the 8 sampled listed commercial banks for the period of 5 years from 2010 to 2014. The significance of FRL has been highlighted, which will enable all stakeholders to make relevant and informed economic decision about their investment. Therefore, this is consistent with the findings of Ishaq and Che-Ahmad, (2016). Thus, companies are expected to publish on timely basis their annual report and accounts. The result of the study further reveals that increase in the number of independent directors will also reduces delay by companies in publishing their annual accounts.

Furthermore, the findings of the this study corroborate with (Carslaw & Kaplan, 1991; Hossaini & Tailor, 1998; Ashton, *et al.,* 1989), in the sense that using the service of experts and up to date monitoring and supervision reduces unnecessary delay in publishing the financial report by listed commercial banks in Nigeria. Hence, there is need for shareholders to lay their support to companies, so that they can employ professionals/skilled labour.

This concludes that, there is need for listed Nigerian commercial banks to increase the number of their independent directors to add to the board composition. Thus lead to timely release of published accounts to enable economic decision by shareholders in respect of their investment in the banks. This is because independent directors are less likely to be excluded from decision making and given restricted access to information and boards that take all views into account in decision making may end up making better decisions. Moreover, independent directors with different viewpoints to question the actions and decisions of executive directors as they are taking place should lead to better decision being made. Possibly the banks can adopt the use of a two tier board to reduces the effect of agency problems/cost (Sani and Chabbal, 2016).

By and large, there is need for further research in this area as regard to cultural and ethnic difference; to see how they affect individual committees within the corporate governance characteristics and their effect on ensuring timely release of published annual reports and account by Nigerian. This is considered necessary as research in the FRL in Nigeria is so scanty; therefore necessitate the filling of knowledge gap in Nigerian context.

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