European Journal of Accounting Auditing and Finance Research

Vol.2, No.10, pp.22-33, December 2014

Published by European Centre for Research Training and Development UK (www.eajournals.org)

CORPORATE GOVERNANCE AND AUDIT DELAY IN NIGERIAN QUOTED COMPANIES

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ABSTRACT: *The objective of this study is to examine the determinants of audit report timeliness in Nigeria. Specifically, the study examines the effect of company size, profitability, complexity and audit firm type on audit report timeliness. The cross-sectional research design was adopted with an extensive reliance on secondary data. The data was source from annual reports of manufacturing companies quoted on the floor of the Nigerian stock exchange for 2010-2012. The ordinary least squares (OLS) regression technique was utilized as the method of data analysis. The finding of the study shows the following; (i) A significant relationship exist between board size and Audit report lag (ii) A significant relationship exists between board independence and Audit report lag (iii) A non-significant relationship exists between audit firm type and Audit report lag. It was also discovered that the time lag prescribed by the regulatory bodies are usually too much thus encouraging companies to engage in the act of delaying their financial statements. The recommendation is that in achieving the objective of making the financial statements readily available for making timely decisions, the Nigerian stock exchange, securities and exchange commission, the Financial Reporting council, the Central Bank of Nigeria and other regulatory bodies should put in place measures to ensure strict compliance with the laid down rules and regulations.*

KEYWORDS: Board independence, Board size, Audit Report lag.

INTRODUCTION

Audit reports timeliness generally refers to the length of time from a company's financial year-end to the date of the auditor's report and thus it is measured as the number of days between a firm's fiscal year-end and the report date (Ashton, Willingham, and Elliot, 1987). Audit report timeliness has been viewed and addressed from different angles; while some may prefer to look at audit time lag using audit report lag, others have used management lag, total lag and also audit time lag. The auditing literature has long recognized the importance of audit delay research because audit delays affect the timeliness with which financial and audit information are publicly disclosed. Timeliness of audit reports in relation to financial reporting, is an important qualitative attribute of accounting information and influences whether information is useful to those who read financial statements or otherwise. The timeliness of audited corporate annual financial reports is considered to be a crucial and an essential factor affecting the usefulness of information made available to various users. According to Soltani (2002), the accounting profession has recognized that the timeliness of reports is a significant characteristic of financial accounting information for the users of accounting information, and for regulatory and professional agencies. One of the important objectives of corporate reporting is to provide information that will assist external users in decision making. This information, however, is required to be made available within a short period of time from the end of the reported period; otherwise, it loses some of its economic

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

value. Therefore, reducing audit delays and improving timeliness of audit reports is recognized by the accounting profession, users of accounting information, and regulatory and professional agencies as an important characteristic of financial accounting information. Timeliness requires that information be made available to users as quickly as possible and before it loses its relevance for decision making. It is recognized in the literature that the shorter the time between a company's financial year-end to the date of the auditor's report, the more benefit can be obtained from the audited financial statements (Abdulla, 1996). However, it is not acceptable to publish financial statements unless a certified public accountant (external auditor) first audits them.

The timeliness of Audit reports is a critical factor in emerging and newly developed capital markets where the audited financial statements in the annual report are the only reliable source of information available to investors. In Addition, Owusu-Ansah (2000) argues that timely reporting is an important device to mitigate insider trading, leaks and rumors in emerging capital markets. Timeliness can also be viewed as a way of reducing information asymmetry and reducing the opportunity to spread rumors about the companies' financial health and performance. Timely presentation of financial statements affects the decision making process of investors and other users, as lack of timely information will result in the investors seeking for alternative sources of information and hence affects the investment base of the organization and as rightly put by Bamber, Bamber & Schoderbek (1993:15)

"*delayed disclosure of financial information may encourage certain corrupt investors to acquire costly private pre-disclosure information and thus exploiting their private information at the expense of the 'less informed' investors"*.

Consequently, the focus of this study is to examine the effect of corporate governance determinants on audit report lag using selected quoted companies in Nigeria.

Statement of the Problem

Several studies on the timeliness of corporate reporting and/or audit delay have been undertaken in a number of countries. Most of these studies were conducted in the United States (Kinney &McDaniel, 1993; Han & Wild, 1997, Krishnan, 2005). Several studies have also been carried out in Australia (Davis & Whittred, 2008; Whittred, 2006; Simnett, Aitken, Choo, & Firth, 2005), Canada (Newton & Ashton,1999), New Zealand (Carslaw & Kaplan, 1991; Courtis, 2006), Bahrain (Abdulla,1996), France (Soltani, 2002), China (Wang & Song, 2006), Greece (Owusu-Ansah & Leventis, 2006), the UK (Abdelsalam & Street, 2007), Europe, and the Far East (Conover, Miller, & Szakmary, 2007). However the area has not received adequate research evidence in Nigeria especially when juxtaposed with what obtains in several developed and emerging markets and this has necessitated this study. Findings from Nigeria are of incremental benefits to extant literature arising from the peculiarity of the audit market and the nature of the corporate environment. Secondly, In Nigeria, by provisions of CAMA (1990) as amended the maximum time within which companies are expected to complete and make public their financial report is three (3) months. However, most companies present their reports much later than this date (Modugu, Eragbe and Ikhatua 2012). Why does this trend persist? Therefore, a study on the current level of timeliness of audit report in Nigeria is in the right direction and this gap motivates this study.

Research Objectives

The specific objectives of the study are to;

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

i. Examine the relationship between board size and audit report lag.
ii. Determine the relationship between board independence and audit report lag.
iii. Investigate the relationship between audit firm type and audit report lag.

Research Hypotheses

The following hypotheses have been specified for the purpose of the study

H1*:* *There is a significant relationship between board size and audit report lag.*
H2*:* *There is a significant relationship between board independence and audit report lag.*
H3*:* *There is significant relationship between audit firm type and audit report lag*

LITERATURE REVIEW

Conceptual Framework

Audit lag

Timeliness of financial statements is generally conceptualized in literature as the time it takes the company to present its financial reports before its shareholders in the Annual General Meeting after the closing date of such company. The International Accounting Standard Board (2008) sees timeliness as making the financial information available to users on time so as to influence their decision. Timeliness thus requires that information should be made available to the users as quickly as possible (Carslaw & Caplan, 1991). Studies like Gilling, (1977) and Abdulla, (1996) have shown that the shorter the time between a company's financial year-end to the date of the auditor's report, the more the benefits that can be obtained from the audited financial statements.

Due to the importance attached to the timeliness of financial reporting, different national regulatory authorities have recognized the need to set a maximum time financial reports should be made available to the shareholders. In Nigeria, the Company and Allied Matter Act (CAMA) 2004 requires each company to hold its annual general meeting, where the financial statements would be presented before the shareholders in a period not more than fifteen month after the last annual general meeting (S. 213, 214 &218). This implies that the period of reporting lag allowed by the Company and Allied Matter Act in Nigeria is a maximum of six months. This is unlike the situations existing in Turkey and United State of America where for instance, the Istanbul Stock Exchange (ISE) requires audited financial statements of companies to be published within fourteen (14) weeks after the end of the year of companies (Bengu & Burcu, 2013:2). And in the USA, Security and Exchange Commission has in fact reduced the filing deadline for financial statement of companies from 90 days to 60 day so as to improve the efficiency of market in USA (Lehtinen, 2013:2).

Corporate Governance

According to Anandarajah (2004), there is no universally agreed definition for what the term corporate governance means, numerous definitions have evolved owing to the multi-dimensional nature of the concept. Consequently, Anandarajah (2004) views the concept of corporate governance as a means of holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. The Code of Corporate Governance issued by Central

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

Bank of Nigeria (2003) defines the subject of corporate governance as "a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders." The Organisation for Economic Cooperation and development (OECD, 1999) also defines corporate governance as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing so, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance. The Asian Development Bank (ADB, 2000) defined corporate governance as the manner in which power is exercised in the management of a country's social and economic resources for development.

Sulaiman (2003) observes that it is the framework for accountable decision-making as well as the structure that turns decisions into actions in organizations. He sees corporate governance as the combination of processes, structures and relationships through which business corporations are directed and controlled. Oyediran (2003) posits that corporate governance is the way and manner in which the affairs of companies are conducted by those charged with that duty. In Nigeria, the governance of a limited liability company is the responsibility of its board of directors.

Corporate Governance and Audit Report Lag

Wu, Wu and Liu (2008) investigated the effect of corporate governance on the audit report lag. They argued that board characteristics are important determinants for the timeliness of a firm's annual report. The study found that there is no significant relationship between board size and timely annual reports but found a positive significant relationship between a board with ultimate owners and a board with independent directors and the reporting lag. Furthermore, they found out that other firm characteristics and technological changes are also related to the reporting lag. Che-Ahmad and Abidin (2008) empirically extends previous research by examining the determinants of audit delay in Malaysia public listed companies. The multivariate analysis showed that director shareholdings, total assets, number of subsidiaries, type of audit firms, audit opinion and return on equity to be important determinants of suggesting the importance of ownership structure in influencing audit lag in this sector. Ezat (2009) examined the key factors that affect the timeliness of corporate internet reporting by the listed Egyptian corporations in the Egyptian Exchange. They use firm characteristics and corporate governance variables to investigate the influence on the timeliness of corporate internet reporting. Also, a disclosure index was developed to measure the timeliness of corporate internet reporting for the listed Egyptian corporations. The study found a significant relationship between the timeliness of corporate reporting and ownership structure, board composition and board size. The results indicate that firms with high proportion of independent directors, large number of board directors and high free float disclose more timely information.

Afify (2009) examined the impact of corporate mechanisms on audit report lag in Egypt. They found out that the Audit report lag(ARL) for each of the 85 listed sample companies ranged from a minimum interval of 19 days to a maximum interval of 115, and Egyptian listed companies take approximately two months on average. A regression analysis carried out indicated that board independence, duality of CEO, and existence of an audit committee significantly affect ARL. But on the other hand, ownership concentration has insignificant

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

affect on ARL. Ishak, Sidek and Rashid (2010), in a study on the effect of ownership structure on the timeliness of financial reporting using emerging country data, investigating the findings of the impact of various forms of company ownership – i.e. ownership concentration, institutional ownership and foreign ownership – on the timeliness of release of financial statement information of a sample of 198 Malaysian listed companies for the 2007 financial year. Using multivariate analysis, they found out that ownership concentration, institutional ownership and foreign ownership have some impact on audit delay, and hence, the timeliness of release of financial statement information to the public. Hashim and Rahman (2010) examined the association between corporate governance mechanisms and audit report lag among 288 companies listed at Bursa Malaysia for a period ranging from 2007-2009. Three characteristics of board of directors such as board independence, board diligence and board expertise were used to examine their effectiveness in assuring audit report timeliness. The result of this study revealed that there was no significant relationship between board diligence, board independence and board expertise and audit report lag.

Mohamad-Nor, Shafie & Wan-Hussin (2010) empirically examined the relationships between audit committee characteristics and the timeliness of audit reporting. The characteristics of an audit committee that were examined are size, independence, expertise and frequency of meeting. The evidence indicates that firms with more members in the audit committee and more frequent audit committee meetings are more likely to produce audit reports in a timely manner. Two audit committee characteristics, namely audit committee size and audit committee with at least four meetings, have a significantly negative association with audit report lag. Although audit committee independence and competencies have the expected negative relationship with audit lag, neither of the variables was found to be statistically significant. Zaitul (2010) investigates for the relationship between the board of directors, audit committee and auditor characteristics, and the timeliness of financial reporting in listed companies in Indonesia. The study used a panel data analysis of 218 companies listed on the Indonesian stock market from 2006 – 2008. They found out that several board characteristics affect the timeliness of financial reporting especially board sizes, board shareholding, board multiple directorship and length of service are significantly related to management report lag.

Akle (2011a) carried out a study on the relationship between the timeliness of corporate financial reporting and corporate governance for companies listed on the Egyptian stock exchange from 1998 – 2007. They investigated the role of corporate governance level on the timeliness of corporate financial reporting and also the relationship between industry type, company size, gearing, leverage, earnings quality, earnings management, electronic disclosure, audit opinion and the timeliness of corporate financial reporting. They found out that Egyptian publicly listed firms have been less timely in their annual financial reporting since the application of the corporate governance principles.

Hashim and Rahman (2011) examined the link between audit committee characteristics and audit report lag among 288 companies listed at Bursa Malaysia for a three year period from 2007 to 2009. The characteristics of audit committee examined are audit committee independence, audit committee diligence and audit committee expertise. The results of their study show that audit report lag for the listed companies in Malaysia ranges from 36 days to 184 days for the three year period and that audit committee independence and audit committee expertise could assist in reducing audit report lag among companies in Malaysia. However, the study could not provide any evidence on the link between audit committee diligence on audit report lag.

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

THEORETICAL FRAMEWORK

Agency Theory

The agency theory deals with the contractual relationship between the agent (manager) and the principal (shareholders) under which shareholders delegate responsibilities to the manager to run their business. This theory argues that when both parties are expected to maximize their utility, there is good reason to believe that the agent may engage in opportunistic behavior at the expense of the principal's interest. Jensen and Meckling (1976) modeled this condition as an agency relationship where the inability of the principal to directly observe the agent's action could lead to moral hazard, thus increasing agency cost. In addition, agency theory points out the role of the board of directors to monitor both the majority shareholders and management; and to protect minority shareholders' interests (Fama & Jensen, 1983).

How does the audit report lag or timeliness fall within the context of the agency theory? This question is answered when we consider clearly the contributions of Jensen and Meckling (1976). According to Jensen & Meckling (1976), a component of the agency costs is represented by the monitoring costs supported by shareholders for the monitoring of the managers actions. Since it is not acceptable to publish financial statements unless a certified public accountant (external auditor) first audits them, the external audit effort is an important component of these costs, as long as auditors have to make sure that managers act according to the shareholders' interests, while also auditors have the required task to inspect the accounts of the company. It may hence be supposed that auditors will spend more time inspecting the managers' activity and therefore increase the audit report lag if the agency problems are big.

METHODOLOGY

The design adopted for the study is cross-sectional research design. The design is well suited in examining the several sample units across time. The population of the study covers all companies quoted on the Nigerian stock exchange as at the study period. However, resulting from the practical difficulties of accessing the population, a subset regarded as a sample will be utilized. The basis for sampling is justified by the law of statistical regularity which holds that on the average a sample selected from a given population will exhibit the properties of its source (Green, 2003). The simple random sampling technique was employed in selecting the 40 companies for 2010-2012 financial years. The technique is well suited for determining the sample as it provides an equal probability of selection and as such minimizes selection bias. We used secondary data retrieved from financial statements of the sampled companies. The study employed the ordinary least squares (OLS) regression analysis technique as the data analysis method. In line with Gujarati (2003) we conduct preliminary diagnostic test for linearity of the model parameters, homoscedasticity, multicollineraity and the presence of autocorrelation in the residuals.

Model Specification

The model is specified below;

$$AUDLAG = f\,(AFT, BS, BI, \xi) \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad (1)$$

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

This can be re-specified in regression form as;

$$AUDLAG = a + \beta_1 AFT_{it} + \beta_2 BS_{it} + \beta_3 BI + \xi_t \quad \ldots \quad \ldots \quad (2)$$

where:

AUDLAG	=	*Audit time lag*
AFT	=	*Audit firm type*
BI	=	*Board independence*
BS	=	*Board Size*
ξ_t	=	*Stochastic term*

1. Presentation and Analysis of Result

Table 1 Descriptive Statistics

	ADLAG	BS	BI	AFT
Mean	111.042	11.254	18.489	0.407
Maximum	239	18	64.5	1
Minimum	47	6	5	0
Jarque-Bera	9.802	2.045	306.687	19.769
Probability	0.007	0.359	0.00	0.000
Observations	80	80	80	80

Source: *Researchers Compilation (2014)*

From the descriptive statistics of the variables as shown in table 1 above, it is observed that the average ADLAG (audit time lag) for the sample is approximately 111 days. The maximum is 239 days while the minimum is 47days.The mean for audit for BS (Board size) indicates that the average board size is approximately 11 with a maximum and minimum of 18 and 6 respectively. B1 (Board independence) measured as the number of non-Executive directors divided by the board size shows an average number of 19 for the sample companies with a maximum and minimum of 65 and 5 respectively. From the descriptive statistics we find that all the variables except board size all have their p-values of the Jacque-Bera-statistic less than zero.

Table 2 Pearson Correlation Result

	ADLAG	BS	BI	AFT
ADLAG	1			
BS	-0.17639	1		
BI	0.561311	-0.67321	1	
AFT	-0.09784	0.386374	-0.22084	1

Source: *Researchers Compilation (2014)*

Table 2 above presents the Pearson correlation coefficient result for the variables. As observed, Audit time lag (ADLAG) appear to be negatively associated with Board size (r=-0.176), Audit firm type (r=-0.098). Audit time lag (ADLAG) is however observed to correlate positively with BI (Board independence) (r=0.561). BS (Board SIZE) appear to be negatively associated with Board Independence (BI) (r=-0.673). It is however observed to correlate positively with Audit firm type (r=0.386). BI (Board independence) appear to be negatively correlated with Audit firm type (r=-0.220). An overview of the correlation

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

coefficients shows that a number of the variables tend to be quite strongly correlated. Hence we conduct the variance inflation to test for ascertain how much of the variance of a coefficient estimate of a regressors has been inflated due to collinearity with the other regressors.

Table 3: OLS Regression Result

Dependent Variable: AUDLAG Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-44.195	0.583	1.408	0.22
BS	6.459	0.213	2.256	0.003
BI	4.673	0.784	8.137	0.000
AFT	-3.916	5.53E-08	0.996	0.587
R-squared	0.4753	Mean dependent var		11.22817
Adjusted R-squared	0.4178	S.D. dependent var		1.548648
S.E. of regression	1.60685	Akaike info criterion		3.874194
Sum squared resid	152.3361	Schwarz criterion		4.074907
Log likelihood	-119.9113	Hannan-Quinn criter.		3.953388
F-statistic	10.089528	Durbin-Watson stat		2.087967
Prob(F-statistic)	0.03608			

Source: *Researchers Compilation (2014)*

As observed the R^2 of 0.475 suggests that the model explains about 47.5% of the systematic variations in the dependent variable with an adjusted value of 0.381. The F-stat (10.089) and p-value (0.036) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level while the Durbin Watson statistics of 2.1 suggest the unlikelihood of serial correlation in the model. An evaluation of the performance of the explanatory variables shows that BS (Board size) is positive (β_2= 6.459) and significant at 5% (p=0.00) and this suggest that larger boards could result in increased audit time lag and as such we accept the hypothesis (H1) of a significant relationship between Board size and audit time lag. The finding is in tandem with Ezat (2009) which examined the key factors that affect the timeliness of corporate internet reporting by the listed Egyptian corporations in the Egyptian Exchange. The study found Board independence and board size have a significant relationship with timeliness of corporate reporting. Mohamad-Nor, Shafie & Wan-Hussin (2010) empirically examined the relationships between audit committee characteristics and the timeliness and found board size as a significant determinant of audit report lag. BI (Board independence) is also positive (β_3= 4.673) and significant at 5% (p=0.00). The finding indicates that more independent boards will signal a rise in audit time lag and as such we accept the hypothesis (H2) of a significant relationship between Board independence and audit time lag. The finding is in tandem with Wu, Wu and Liu (2008) which found board independence to be an important determinant for the timeliness of a firm's annual report. However, the study found that there is no significant relationship between board size and timely annual reports. Our findings also agree with that of Afify (2009) which examined the impact of corporate mechanisms on audit report lag in Egypt. They found that board independence significantly affect ARL. However, our findings

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

are in contrast with Hashim and Rahman (2010) which examined the association between corporate governance mechanisms and audit report lag among 288 companies listed at Bursa Malaysia for a period ranging from 2007-2009. The study found board independence as a significant determinant in audit report lag. Audit firm type (AFS) is negative (β_1=-3.916) which is in tandem with our theoretical expectation as Audit delay for big 4 audit firms should be less than those of non-big 4. The finding is however not significant at 5% (p=0.587) and as such we fail to accept the hypothesis (H3) of a significant relationship between Audit firm type and audit time lag.

Diagnostics Test for the model.

The following tests were conducted for the model to ensure that basic ordinary least squares assumptions have not been violated and that the estimates resulting from the model were the best, linear unbiased estimates of the population parameters. The tests were the Jacque-bera test for normality, Autoregressive Conditional Heteroskedasticity (ARCH) for heteroskedasticity test, the LM test for autocorrelation and the Ramsey reset test for the model specification.

Table 4: Regression Diagnostics

Normality test		
Jacque-bera statistics		
Variable	Statistics	p-value
ADLAG	9.802	0.007
BS	2.045	0.359
BI	36.687	0.000
AFT	19.769	0.000
Multicollinearity test: Variance Inflation factor		
Variable	Coefficient Variance	Centered VIF
C	0.03331	NA
BS	0.003718	1.002929
BI	0.004669	1.035268
AFT	0.000887	1.114373
Heteroskedasticity Test: ARCH		
F-statistic = 0.156	Prob. F(3,80)	0.321
Obs*R-squared = 189.5	Prob. Chi-Square(1)	0.124
Breusch-Godfrey Serial Correlation LM Test:		
F-statistic = 0.12504	Prob. F(3,79)	0.179
Obs*R-squared=2.559647	Prob. Chi-Square(2)	0.184
Ramsey Reset Test		
t- statistics=1.2948	Df= 80	0.281
f-statistics =1.676	Prob. F(1,80)	0.203

Source: *Researchers Computation (2014)*

Table 4 shows the regression assumptions test for model. As observed, the table labeled Tests of Normality shows the results the Jacque-bera statistics. This assesses the normality of the distribution of scores. The variance inflation factor (VIF) shows how much of the variance of a coefficient estimate of a regressors has been inflated due to collinearity with the other regressors. Basically, VIFs above 10 are seen as a cause of concern (Landau and Everitt,

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

2003). As observed, none of the variables have VIF's values exceeding 10 and hence none give serious indication of multicollineraity. The ARCH test for heteroskedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05, which leads us to reject the presence of heteroskedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation reveals that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05. The LM test did not therefore reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

CONCLUSION AND RECOMMENDATION

The timeliness of audited corporate annual financial reports is considered to be a crucial and an essential factor affecting the usefulness of information made available to various users. Thus accounting information is required to be made available within a short period of time from the end of the reported period; otherwise, it loses some of its economic value. Therefore, reducing audit delays and improving timeliness of audit reports is recognized by the accounting profession, users of accounting information, and regulatory and professional agencies as an important characteristic of financial accounting information. Using the ordinary least squares regression analysis, this study found the following; (i) a significant relationship exist between Board size and Audit report lag. (ii) A significant relationship exists between board independence and Audit report lag (iii) A non-significant relationship exist between audit firm type and Audit report lag.

In achieving improvement in the timeliness and in achieving the objective of making the financial statements readily available for making timely decisions, the Nigerian stock exchange, securities and exchange commission, the Financial Reporting council, the Central Bank of Nigeria and other regulatory bodies should put in place measures to ensure strict compliance with the laid down rules and regulations and also, the it was discovered that the time lag prescribed by the regulatory bodies are usually too much thus encouraging companies to engage in the act of delaying their financial statements. Also, companies should put in place measures of reducing the time lag between the financial year end and the Annual General Meeting (AGM). In order to boost the confidence the financial statement users have in using financial statements for decision making. Companies should however consider the cost and the benefit of timely disclosure. Furthermore, measures should be put in place to ensure that the audits of companies are carried out in due course.

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