

**EMPIRICAL INVESTIGATION OF CORPORATE GOVERNANCE AND FINANCIAL REPORTING QUALITY OF QUOTED COMPANIES IN NIGERIA**

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**ABSTRACT**

Financial reporting is perceived no longer as a low priority book keeping exercise, but a central function for directing a company under good corporate governance principles. This study is an empirical investigation of corporate governance and financial reporting quality of quoted companies in Nigeria. In order to achieve the objectives of the study, a total of fifteen firms quoted on the Nigerian stock exchange market under the consumer goods sector with updated financial information for the period under study were selected and analyzed for the study. Data for the study were extracted from corporate annual reports and accounts of selected firms for the period 2012-2016. Data for corporate governance proxied by board size and audit committee independence were extracted from the notes from annual reports and financial reporting quality was represented by audit delay. In testing the research hypothesis, the study adopted simple regression techniques for the quoted sampled firms analyzed. The findings revealed that audit committee independence does not exert significant effect on audit delay of corporate firms. Also, board size has a significant negative relationship with audit delay of corporate firms in Nigeria. Consequent upon this study, it was recommended that corporate policies should reflect commitment to company variables such as board size that will significantly impact the quality of financial reporting. This position is borne out of the preponderance of the negative relationship between board size and audit delay.

**Keywords:** Financial Reporting Quality, Corporate Governance, Audit Delay, Audit Committee independence, and Board Size

**INTRODUCTION**

**Background to the study**

Financial reporting is perceived no longer as a low priority book keeping exercise, but a central function for directing a company under good corporate governance principles. The issue of corporate governance has received great attention in recent times. In Nigeria, this was further heightened subsequent to the collapse of several financial and non-financial institutions which includes the bank PHB, Spring bank Plc., Oceanic bank Plc., Intercontinental bank Plc., African

petroleum Plc., Levers brother and Cadbury Plc. An investigation into the cause revealed significant, deep-rooted problems in the account preparation and also the intentional misconduct of managers which led to the concurrent sack of eight (8) bank chiefs by the governor of central bank of Nigeria and the call for an investigation of the efficacy of the monitoring and controlling of managerial and financial behavior of managers (Ndukwe & Onwuchekwa, 2014).

The Code of Corporate Governance in Nigeria 2011 was issued by the Nigerian Securities and Exchange Commission (SEC) to align with the international best practices on corporate governance and to address some of the lapses and poor show of the Corporate Governance of 2003 issued by SEC. Evidently, the provisions of the 2011 SEC Code focused on Corporate Governance, Law, and Business and other incidental matters was designed to improve corporate performance in Nigeria (Egbunike & Ezelibe, 2015). Corporate governance is concerned with directing and controlling the operations of an organization so as to ensure that all stakeholders receive their due reward from the establishment (Okafor, 2009).

Corporate governance is about ensuring that the business is run well and investors receive a fair return. Organization for Economic Corporation and Development (1999) provides a more encompassing definition of corporate governance. It defines corporate governance as the system by which business corporations are directed and controlled. The corporate governance structures specifies the distribution of rights and responsibilities among different participant in the corporation such as the board, managers, shareholders and other stake holders, and spells out the rules and procedures for making decisions on corporate affairs.

A good corporate governance structure helps ensure that the management properly utilize the enterprises resources in the best interest of absentee owners, and fairly reports the financial condition and operating performance of the enterprise (Lin & Hwang, 2010). Dabor & Ibadin (2013) notes that corporate governance is a factor, that determine whether management will engage in earnings management or not. The function of the corporate governance formation in financial reporting is to ensure compliance with generally accepted accounting principles (GAAP) and to maintain the credibility, transparency and uniformity in financial reporting. Corporate governance mechanisms are expected to reduce earnings management because they provide effective monitoring of management in the financial report process (Egbunike & Ezelibe, 2015).

Corporate governance mechanisms such as CEO duality, director's shareholdings, board size, board composition, quality audit committee, executive compensation, quality audit committee, executive compensation and board independence have been found to relate to measures of Accounting Quality (Ibadin & Dabor, 2015, Ibadin, Izedonmi & Ibadin, 2012, and Okafor & Ibadin, 2011).

However, it is suggested that when accounting or financial reports are handy and timely, such information is said to be of high quality .But what role the corporate governance variables play

in improving accounting quality. The accounting quality, in the context of this paper, is defined in terms of timeliness, which in the view of Sloan (2002), depends largely on the existence of strong corporate governance structures. This definition of quality of financial reporting is consistent with accounting quality defined by McGee (2008) and Beest, Braan & Boelens (2009). It is on this note that the study embarks on an Empirical Investigation of Corporate Governance and Financial Reporting Quality of Quoted Companies in Nigeria.

Outright failure of governance systems can therefore be argued to be a major contributor to the collapse of many of the well-celebrated organizations that have littered the world's corporate landscape. This failure, which translates into an inability of organizations to meet the expectations of their various stakeholders, has often been traced to weaknesses in the internal controls infrastructures and operating environments, and a lack of commitment to high ethical standards. These weaknesses are sometimes deliberately or intentionally induced by organizational designers and controllers, and at other times they may be a result of the naive assumption that managers will always act in a way that suggests or promotes enlightened self-interest, which should ultimately have positive implications for all stakeholders. (Donaldson & Preston, 1995).

The manipulations of financial statements and subsequent corporate collapses are currently recurring phenomena globally. Various countries have tried to address this situation in order to guarantee the credibility of the financial statements through ensuring strong corporate mechanisms and strict compliance with accounting standards. Since the 1990s, the Nigerian corporate world has been beset bank distresses, corporate frauds and collapses in various dimensions. Due to the growing concerns and need to align practices in Nigeria to international best practices, the Peterside's Code of corporate governance in Nigeria was released in 2003 for public companies. The Central Bank of Nigeria released the code of best practice on corporate governance for banks in the post-consolidation era in 2006 (Egbunike & Ezelibe, 2015).

But, despite the introduction of the codes of best governance practices in Nigeria in 2003 and its continuous modifications, the result that it has achieved can be said to be minimal as there are fresh cases of governance malpractices that threaten the survival of quite a number of firms in different sectors of the economy (Hassan & Ahmed, 2012). Regulators of accounting profession in Nigeria seem to be silent on the issue of weak Corporate Governance Structure yet it is widely practiced among many companies in the country, further users of accounting information seem not to have perceived this practice which has led to collapse of many major companies globally such as Enron and WorldCom (Ayala & Giancarlo, 2006) and locally such as African Petroleum Plc., Leventis, Cadbury Plc., Exide battery etc.

With increasing harsh economic times, companies may be propelled to practice the habit of not disclosing the corporate structure of their organization to the public for diverse reasons. Users of financial information may not fully understand their operations because different reasons. Carrying out research on corporate governance and Financial Reporting Quality of Quoted Companies in Nigeria will be of help to users of accounting information.

Generally, this study is an empirical investigation of the effect of corporate governance on financial reporting quality of quoted companies in Nigeria. However, it is set to achieve the following specific objectives:

1. To determine the extent to which audit committee independence affect the Financial Reporting Quality of Nigeria quoted companies.
2. To examine whether there is any significant effect of board size on Financial Reporting Quality in Nigeria quoted companies.

Sequel to the objective of the study, the following hypotheses stated in their null forms will be tested:

1.  $H_0$ : Audit Committee independence does not exert significant effect on Financial Reporting Quality of Nigeria Quoted Companies.
2.  $H_0$ : Board Size does not have significant effect on Financial Reporting Quality in Nigeria Quoted Companies.

## **Literature Review**

### **Conceptual Framework**

The term corporate governance came into use in the 1980s to broadly describe “the general principles by which businesses and management of companies were directed and controlled” (Dor, Naseem, Rehman & Niazi, 2011). Donovan (2003) see corporate governance as “an internal system encompassing policies, processes and people which serves the needs of shareholders and other stakeholders by directing and controlling management activities with good business savvy, objectivity and integrity”. In other words it defines the legal, ethical and moral values of a corporation in order to safeguard the interest of its stakeholders.

There were several attempts and efforts to define the concept of corporate governance by different scholars, organizations and theorists alike. These attempts and efforts made the definition of the concept to be enriched with diverse opinions and explanations. However, the definition of the Organization for Economic Cooperation and Development (OECD) is said to represent the international consensus on the meaning of the concept, which it defines 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 this it also provides the structures through which the company objectives are set, and the means of attaining those objectives and monitoring performance. Corporate governance generally refers to the processes by which organizations are directed, controlled, and held to account, and is underpinned by the principles of openness, integrity, and accountability. Governance is concerned with structures

and processes for decision-making, accountability, control and behavior at the top of organizations (IFAC, 2001).

Corporate governance aims to ensure that corporations are managed in the best interests of their owners and shareholders (Ahmed, Alam, Jafar & Zaman 2008). This applies specifically to listed companies where the majority of the shareholders are not in participatory every day management positions; although, it can also apply to other forms of corporations such as companies with few principal owners and a large group of smaller shareholders, public corporations (where all citizens are stakeholders) partner-owned companies and privately owned companies where the ownership has been divided through inheritance in one or several generations (Ahmed, Alam, Jafar & Zaman 2008). Another essence of corporate governance is establishing transparency and accountability throughout the organization. This is feasible as corporate governance system is premised on a strict division of power and responsibilities between the shareholders through the annual general meeting, the board of directors, the executive management and the auditors.

### **Corporate Governance Mechanisms**

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. There are both internal monitoring systems and external monitoring systems. Internal monitoring can be done, for example, by one (or a few) large shareholder(s) in the case of privately held companies or a firm belonging to a business group. Furthermore, the various board mechanisms provide for internal monitoring. External monitoring of managers' behavior occurs when an independent third party (e.g. the external auditor) attests the accuracy of information provided by management to investors. Stock analysts and debt holders may also conduct such external monitoring. An ideal monitoring and control system should regulate both motivation and ability, while providing incentive alignment toward corporate goals and objectives. Care should be taken that incentives are not so strong that some individuals are tempted to cross lines of ethical behavior, for example by manipulating revenue and profit figures to drive the share price of the company up.

Effective corporate governance is essential if a business wants to set and meet its strategic goals (Davoren, 2017). A corporate governance structure combines controls, policies and guidelines that drive the organization toward its objectives while also satisfying stakeholders' needs. A corporate governance structure is often a combination of various mechanisms as state below:

#### **1. Internal Mechanism**

The foremost sets of controls for a corporation come from its internal mechanisms. These controls monitor the progress and activities of the organization and take corrective actions when the business goes off track. Maintaining the corporation's larger internal control fabric, they serve the internal objectives of the corporation and its internal stakeholders, including employees, managers and owners. These objectives include smooth operations, clearly defined reporting lines and performance measurement systems. Internal mechanisms include oversight of

management, independent internal audits, structure of the board of directors into levels of responsibility, segregation of control and policy development.

## **2. External Mechanism**

External control mechanisms are controlled by those outside an organization and serve the objectives of entities such as regulators, governments, trade unions and financial institutions. These objectives include adequate debt management and legal compliance. External mechanisms are often imposed on organizations by external stakeholders in the forms of union contracts or regulatory guidelines. External organizations, such as industry associations, may suggest guidelines for best practices, and businesses can choose to follow these guidelines or ignore them. Typically, companies report the status and compliance of external corporate governance mechanisms to external stakeholders.

## **Corporate Governance Measurement Mechanisms**

There are many factors or variables that may constitute yardsticks by which corporate governance can be measured in an organization. Some of these mechanisms are briefly discussed below;

1. Board Size - Limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits of larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups. Empirical studies on board size seem to provide the same conclusion: a fairly clear negative relationship appears to exist between board size and firm value. Too big a board is likely to be less effective in substantive discussion of major issues among directors in their supervision of management. Lipton and Lorsch (1992) argue that large boards are less effective and are easier for the chief executive officer (CEO) to control. When a board gets too big, it becomes difficult to coordinate and for it to process and tackle strategic problems of the organization.

2. Board Composition - Enhanced director independence, according to Young (2003) is intuitively appealing because a director with ties to a firm or its CEO would find it more difficult to turn down an excessive pay packet, challenge the rationale behind a proposed merger or bring to bear the skepticism necessary for effective monitoring. The proponents of agency theory say that corporate governance should lead to higher stock prices or better long-term performance, because managers are better supervised and agency costs are decreased. However, Gompers and Metrick (2003) submit that the evidence of a positive association between corporate governance and firm performance may have little to do with the agency explanation. Empirical studies of the effect of board membership and structure on firm value or performance generally show results either mixed or opposite to what would be expected from the agency cost argument.

3. Audit Committee - Klein (2002) reports a negative correlation between earnings management and audit committee independence. Anderson, Mansi and Reeb (2004) find that entirely independent audit committees have lower debt financing costs.

4. CEO Status - Several studies have examined the separation of CEO and chairman of the board, positing that agency problems are higher when the same person occupies the two positions. Using a sample of 452 firms in the annual Forbes Magazine rankings of the 500 largest USA public firms between 1984 and 1991, Yermack (1996) shows that firms are more valuable when the CEO and the chairman of the board positions are occupied by different persons.

### **Financial Reporting Quality**

One of the most important functions of corporate governance is to ensure the quality of the financial reporting process (Cohen, Krishnamoorthy & Wright, 2004). Sloan (2001) argued that financial information is the first source of independent communication on managerial performance. Obona and Ebimobowei (2012) opined that financial reporting forms the basis for economic decision making by various stakeholders and that the financial reports produced by the accountant should be based on certain fundamental qualities for various take holders to understand the content of the report. Brownlee, Ferris and Haskins (1990) posits that the quality of corporate financial reports should be judged against a changing standard that has evolved over time in relation to the information needs, expectations and demands of financial statement users.

Jonas and Blanchet (2000) describe two general perspectives that are widely used in the assessment of financial reporting quality. The first perspective relies on the needs of users. Under this perspective, quality of financial reporting is determined on the basis of the usefulness of the financial information to its users, (Baxter 2007). The second perspective of financial reporting quality is focused on the notion of shareholder/investor protection. User needs perspective is mainly concerned with the provision of relevant information to users for making decisions, whereas the shareholder/investor protection perspective aims to ensure that the information provided to users is sufficient for their needs, transparent and competent, (Jonas & Blanchet 2000).

As the subject of quality in financial reports is broad several definitions of the term financial reporting quality have been expressed. Verdi (2006) defines financial reporting quality as “the precision with which financial reports convey information about the firm’s operations, in particular its cash flows, in order to inform equity investors”. Jonas and Blanchet (2000), state that “...quality financial reporting is full and transparent financial information that is not designed to obfuscate or mislead users”. IASB (2006, 2008), states that “the objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers”.

Accordingly, AICPA (1970) defines the purpose of financial accounting and financial statements as “the provision of quantitative financial information about a business enterprise useful to the statement users”. The role however of financial reporting is broader and aims to provide evenhanded financial and other information that together with information of other sources

facilitates the efficient functioning of capital and other markets and assists the efficient allocation of the scarce resources in the economy, (FASB 1978).

The concept of financial reporting quality is therefore broad and includes financial information, disclosures and non-financial information useful for decision making. Financial reports should meet certain qualitative criteria in order to avoid poor quality and accomplish their purpose. Both boards of IASB and FASB in their conceptual framework conclude that high quality is achieved by adherence to the objective and the qualitative characteristics of financial reporting information, (IASB 2008). Qualitative characteristics are “the attributes that make the financial information useful and are distinguished as fundamental or enhancing depending on the way they affect the usefulness of the information”, (IASB 2008). Fundamental qualitative characteristics consist of relevance and faithful representation:

- a. Relevance is defined as “the capability of making a difference in the decisions made by the users in their capacity as capital providers”, (IASB 2008). Reported information therefore is useful only if it relates to the issues that are of prime concern to the users.
- b. Faithful representation is attained when “the depiction of the economic phenomenon is complete, neutral and free from material error” (IASB 2008). The phenomena to be presented are “economic resources, obligations and the transactions and events that change those resources and obligations”, (FASB 1980).

Enhancing qualitative characteristics are “complementary to the fundamental qualitative characteristics and distinguish more useful from less useful information”, (IASB 2008). Enhancing qualitative characteristics comprise of comparability, verifiability, timeliness and understandability and their definition according to IASB’s conceptual framework is the following:

- a. Comparability is “the quality of information that enables users to identify similarities and differences between two sets of economic phenomena”.
- b. Verifiability is “a quality of information that helps assure users that information faithfully represents the economic phenomena that it purports to report”.
- c. Timeliness refers to “having information available to decision makers before it loses its capacity to influence decisions”.
- d. Understandability is “the quality that enables users to comprehend its meaning”. Information that users do not understand is not useful even in the case it is relevant.

### **Theoretical Framework**

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the



relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010).

According to Imam and Malik (2007) the corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources. The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfills the long term strategic goal of the owners. It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders (Imam & Malik, 2007). So maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance mechanisms. There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanisms on firms' financial performance. The most important theories are the agency theory, stakeholders' theory and resource dependency theory (Maher & Anderson, 1999).

### **1. Agency Theory**

Agency theory is a theory that has been applied to many fields in the social and management sciences: politics, economics, sociology, management, marketing, accounting and administration. The agency theory a neoclassical economic theory (Ping & Wing 2011) and is usually the starting point for any debate on the corporate governance. The theory is based on the idea of separation of ownership (principal) and management (agent). It states that "in the presence of information asymmetry the agent is likely to pursue interest that may hurt the principal (Sanda, Mikailu & Garba 2005). It is earmarked on the assumptions that: parties who enter into a contract will act to maximize their own self-interest and that all actors have the freedom to enter into a contract or to contract elsewhere. Furthermore, it is concerned with ensuring that agents act in the best interest of the principals.

### **2. Stakeholders' Theory**

The stakeholders' theory was adopted to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity. Within the framework of the stakeholders' theory the problem of agency has been widened to include multiple principals (Sand, Garba & Mikailu 2011). The stakeholders' theory attempts to address the questions of which group of stakeholders deserve the attention of management. The stakeholders' theory proposes that companies have a social responsibility that requires them to consider the interest of all parties affected by their actions. The original proponent of the stakeholders' theory suggested a re-structuring of the theoretical perspectives that extends beyond the owner- manager-employee position and recognizes the numerous interest groups. Freeman, Wicks and Parmar (2004), suggested that: "If organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purpose".

### **3. Resource Dependency Theory**

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009). According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like. According to Abdullah and Valentine, directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandona, 2007). The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Wang, 2009). The agency theory concentrated on the monitoring and controlling role of board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management.

Each of the three theories is useful in considering the efficiency and effectiveness of the monitoring and control functions of corporate governance. But, many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory (Habbash, 2010). Among the various theories discussed, agency theory is the most popular and has received the most attention from academics and practitioners. According to Habbash (2010), the influence of agency theory has been instrumental in the development of corporate governance standards, principles and codes. Mallin (2007) provides a comprehensive discussion of corporate governance theories and argues that the agency approach is the most appropriate because it provides a better explanation for corporate governance roles (as cited by Habash, 2010).

### **Review of Empirical Studies**

There has been a wide variety of interests among researchers, scholars, governments and global agencies on corporate governance after the financial crisis of 2008 that led to the collapse of many institutions in the world (Babatunde & Akeju, 2016).

Kantudu and Samaila (2015) investigated board characteristics, independent audit committee and financial reporting quality of oil marketing firms in Nigeria using multiple regression analysis. The evidence of the study revealed that power separation, independent directors, managerial shareholdings and independent audit committee influences the financial reporting qualities of oil marketing firms in Nigeria.

Hassan and Bello (2013) investigated firm characteristics and financial reporting quality of quoted manufacturing companies in Nigeria using correlation analysis with pooled balanced panel data. The research evidence reveals that there is a significant positive relationship between firm characteristics and financial reporting quality in Nigeria. The result also shows that profitability and independent directors are positively related to earnings quality while an inverse relationship exists between liquidity and quality of financial reporting in Nigeria. Obona and Ebimobowei (2012) opined that financial reporting forms the basis for economic decision making by various stakeholders and that the financial reports produced by the accountant should be based on certain fundamental qualities for various stakeholders to understand the content of the report.

Klai and Omri (2011) examined corporate governance and financial reporting quality of Tunisian firms using multiple regression models. The results revealed that the governance mechanisms that affect the Tunisian firms are lack of board independence and high level of ownership concentration. The governance mechanisms have a significant effect on the financial reporting quality of Tunisian firms. Gois (2014) investigated the financial reporting quality and corporate governance of Portuguese firms using multivariate regression model. The research evidence shows that board composition changes and its degree of independence does not produce any influence on the quality of the accounting information in Portugal.

Adegbie and Fofah (2016) investigated ethics, corporate governance and financial reporting in the Nigerian banking industry using Analysis of Variance (ANOVA). The research evidence revealed that good corporate governance will produce good ethical behavior which will eventually produce reliable and faithful financial report. D'onza and Lamboglia (2014) examined the relationship between corporate governance characteristics and financial statement frauds in Italy using logit regression analysis. The research covers a period of 11 years (2001-2011). The research evidence shows a significant positive relationship between corporate governance characteristics and financial reporting fraud in Italian context.

Myring and Shortridge (2010) investigated corporate governance and the quality of financial reporting disclosures in US using ranked regression analysis. The result provides mixed evidence that the strength of corporate governance impacts on the quality of financial statement information. Fathi (2013) examined corporate governance system and quality of financial information in Tunisia using multivariate analysis and Pearson correlation matrix. The study covers a period of 2004 to 2008. The research evidence revealed that the quality of financial information is positively related to the quality of the board and quality of the ownership structure.

Dimitropoulosb and Asteriou (2010) investigated the effect of board composition on the informativeness and quality of annual earnings. The research covers a period of 5 years (2000-2004). The result revealed that the informativeness of annual accounting earnings is positively related to the fraction of outside directors serving on the board but not related to board size. The

result further revealed that firms with a higher proportion of outside directors report earnings of higher quality than firms with a low proportion of outside directors.

## **Methodology**

### **Research Design**

This study is based on Ex-post factor research design. Ex-post facto design is a non-experimental research technique in which pre-existing groups are compared on some dependent variables. Researchers attempt to discover whether differences between groups have resulted in an observed difference in the independent variable. The assignment of participants to the levels of the independent variable is based on events that occurred in the past, this is where the name is derived from. This non experimental research is similar to an experiment because it compares two or more groups of individuals with similar backgrounds who were exposed to different conditions as a result of their natural histories.

The researcher adopted the Ex-post factor research design because it helps to explain the relationship between independent and dependent variables as would help in actualizing the objectives of this study. Corporate governance variables which are compared with financial reporting quality variable in the study are based on events that occurred in the past. These variables are derived from the information provided in the annual corporate report of the studied companies. The ex-post facto research design compares two or more groups of individuals with similar backgrounds who were exposed to different conditions, corporate governance variables and financial reporting quality variable are both of similar backgrounds in that the figures are derived from the income statement and statement of financial position of the studied firms.

In this research, secondary source of data collection method was used for the purpose of collecting data for the study. Annual reports of fifteen (15) consumer goods sector companies for the period 2012-2016 were obtained from the Nigerian Stock Exchange (NSE). The study used two sets of data from the financial statements for all observations: the first was the data used to measure the corporate governance variables while the second was the data used to measure financial reporting quality.

To analyze our samples we use corporate governance variables such as audit committee independence and board size. These were obtained from financial statements for the years under study were measured. The relationship between corporate governance and financial reporting quality is analyzed using the ordinary least square (OLS) regression analysis. The aim of the OLS Regression analysis was to study the extent to which financial reporting quality can be explained by the corresponding corporate governance variable and to examine the degree of relationship between the two sets of variables for the same time frame.

Financial Reporting Quality is measured by Time or Audit delay. Audit Delay (Time): Number of days from the fiscal year end to the date of the audit report.

The econometric form for the model is specified as:

Hypothesis One:

$$AD = \alpha_0 + \alpha_1 ACI + \mu_{it} \dots\dots\dots(1)$$

Hypothesis Two:

$$AD = \alpha_0 + \alpha_2 BS + \mu_{it} \dots\dots\dots(2)$$

Variable Definitions

*ACI = Audit Committee Independence*

*BS = Board Size*

*AD= Audit Delay*

$\alpha_0 = constant$

$\mu_{it} = error term$

**Test of Hypotheses**

**Hypothesis One**

H<sub>0</sub>: Audit Committee independence does not exert significant effect on Financial Reporting Quality of Nigeria Quoted Companies.

**Model Summary (table 1)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.112 <sup>a</sup>	.012	-.005	.1628057

a. Predictors: (Constant), AS

Source: Researcher’s Computation using SPSS version 20 software, 2017

**ANOVA<sup>a</sup> (table 2)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.019	1	.019	.733	.395 <sup>b</sup>
	Residual	1.537	58	.027		
	Total	1.557	59			

a. Dependent Variable: AD

b. Predictors: (Constant), AS

Source: Researcher’s Computation using SPSS version 20 software, 2017

**Coefficients<sup>a</sup> (table 3)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.834	.099		18.555	.000
AS	.123	.144	.112	.856	.395

a. Dependent Variable: AD

Source: Researcher’s Computation using SPSS version 20 software, 2017

The result obtained from table 1 above shows the model summary results which sought to establish the explanatory power of the independent variables (audit committee independence) for explaining and predicting the dependent variable (audit delay). R, the correlation coefficients, (i.e. the linear correlation between the observed and model predicted values of the dependent variable) showed a value of 0.112. R square, the coefficient of determination (i.e. the squared value of the correlation coefficients) showed a value of 0.012 of the variation in the dependent variable (audit delay) is explained by the model.

The result of the analysis of variance (ANOVA) and ordinary least square regression analysis showed in table 2 and 3 respectively to evaluate the level of significance of the influence of corporate governance on financial reporting quality revealed that audit delay is explained by 1.834 constant factor and 0.123 of the audit committee independence as demonstrated in the regression model used to test the level of effect that corporate governance has on financial reporting quality as shown below;

$$AD = 1.834 + (0.123) ACI$$

This means that every unit change in audit committee independence will lead to 0.123 changes on audit delay. This shows a positive relationship and signifies that audit committee independence has a positive impact on audit delay. The P-value from the ANOVA and coefficient table was used to determine the significance of the influence that the audit committee independence has on audit delay. The contribution of audit committee independence to the model is insignificant because p- value (0.395) is greater than the alpha value of 0.05. Hence, we accept the null hypothesis which states that audit committee independence does not exert significant effect the financial reporting quality.

**Hypothesis Two**

H<sub>0</sub>: Board Size does not have significant effect on Financial Reporting Quality in Nigeria Quoted Companies.

**Model Summary (table 4)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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1	.280 <sup>a</sup>	.078	.062	.1572827
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a. Predictors: (Constant), BS

Source: Researcher’s Computation using SPSS version 20 software, 2017

ANOVA<sup>a</sup> (table 5)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.122	1	.122	4.930	.030 <sup>b</sup>
	Residual	1.435	58	.025		
	Total	1.557	59			

a. Dependent Variable: AD

b. Predictors: (Constant), BS

Source: Researcher’s Computation using SPSS version 20 software, 2017

Coefficients<sup>a</sup> (table 6)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.133	.100		21.363	.000
	BS	-.024	.011	-.280	-2.220	.030

a. Dependent Variable: AD

Source: Researcher’s Computation using SPSS version 20 software, 2017

The result obtained from table 4 above shows the model summary results which sought to establish the explanatory power of the independent variables (board size) for explaining and predicting the dependent variable (audit delay). R, the correlation coefficients, (i.e. the linear correlation between the observed and model predicted values of the dependent variable) showed a value of 0.280. R square, the coefficient of determination (i.e. the squared value of the correlation coefficients) showed a value of 0.078 of the variation in the dependent variable (audit delay) is explained by the model.

The result of the ANOVA and ordinary least square regression analysis showed in table 5 and 6 respectively to evaluate the level of significance of the influence of board size on financial reporting quality revealed that audit delay is explained by 2.113 constant factor and -0.024 of the environmental expenditure as demonstrated in the regression model used to test the level of effect that board size has on financial reporting quality as shown below;

$$AD = 2.113 + (-0.024) BS$$

This means that every unit change in board size will lead to -0.024 changes on audit delay. This shows a negative relationship and signifies that board size has negative impact on audit delay. The P-value from the ANOVA and coefficient table was used to determine the significance of the impact that the board size has on audit delay. The contribution of board size to the model is significant because p- value (0.030) is less than the alpha value of 0.05. Hence, we reject the null hypothesis and accept the alternative hypothesis which states that board size have significant effect on financial reporting quality.

### **Conclusion and Recommendations**

One measure of transparency and quality of financial reporting is timeliness. The study attempts to establish the association between corporate governance variables and financial reporting quality as represented by audit delay. A sample of 15 companies from quoted consumer sector companies on the Nigerian Stock Exchange (NSE) from 2012-2016 was selected. There appears to be evidence of an unusually long time lag made by Nigerian quoted companies from the fiscal year to the audit date. In achieving the reduction of the timeliness to the barest minimum and in achieving the objective of making 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. Also, companies should put in place measures of reducing the time lag between the fiscal year and the annual general meeting in order to boost the confidence of financial statement users for timely decision making.

Based on this study, the following recommendations were made:

1. Corporate policies should reflect commitment to company variables such as board size that will significantly impact the quality of financial reporting. This position is borne out of the preponderance of the negative relationship between board size and audit delay.
2. Future research should accommodate more corporate governance and financial reporting quality variables possibly combined at varying levels.
3. Future research could broaden the pool of data and other sectors could be considered.

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