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Audit Committee And Timeliness Of Financial Reports: Empirical Evidence From Nigeria

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ABSTRACT

Financial information needs to be available to users as rapidly as possible to make corporate financial statement information relevant for decision making process. Timely reporting on financial statements is necessary for healthy financial markets. This paper examines the effect of audit committee and timelines of financial reports for thirty five firms quoted in the Nigerian Stock Exchange (NSE) for the period 2007-2011. The data for this study were collected from the annual reports and accounts. The collected data were analysed using relevant diagnostic tests, pooled least square and granger causality test. The result suggests that audit committee independence (ACI) is significantly related to the timeliness of financial reports; Audit committee meeting (ACM) is not significantly related to timeliness of financial reports; Audit committee expertise (ACE) is significantly related to the timeliness of financial reports and Audit committee size (ACS) is not significantly related to the timeliness of financial reports. On the basis of the empirical result, the paper made conclusions and recommendations for effective and efficient audit committee characteristics to meet the 21st century complex corporate environment.

Keyword: Audit committee, financial report, timeliness,

INTRODUCTION

Financial reports are intended to meet the needs of decision makers. Accordingly, timeliness is identified as one of the characteristics of information in financial reporting. To accomplish this objective, financial reports must be available on time to inform decision making. Therefore, financial reports should be published as soon as possible after the end of the accounting period. Alexander and Britton (2000) reports that information should be provided to the user in time for use to be made of it. According to Turel (2010), timeliness of financial statements is one of the important determinants of financial reports. He argue that irrespective of whether one chooses to call timeliness an objective of accounting or an attribute of useful accounting information, it is clear that both the disclosure regulations and a large part of the accounting literature adopt the premise that timeliness is a necessary condition to be satisfied if financial statements are to be useful. Timely financial reporting is an essential ingredient for a well-functioning capital market. Dogan et al (2007) suggest that financial information users should be able to reach information they need in a timely manner in the case where they are in a position to make a decision or anticipate. Within this context, timing of information is at least as important as the content of that for financial information users. Information users consider that timing of financial reporting is an important complementary factor of accounting information (Almosa and Alabbas, 2007). Undue delay in releasing financial statements increases uncertainty associated with investment decisions (Atkas and Kargin, 2011). The increase in the delay reduces the information content and relevancy of the information (Ettredge et al 2006; Yim, 2010). Entities should balance the relative benefits of timely reporting with the reliability of information provided in the financial statements. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability (Sengupta, 2004). Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim (McLelland and Giroux, 2000). Timeliness has long been recognized as one of the qualitative attributes of general purpose financial reports (Almosa et al., 2007; Aljifri and Khasharmeh, 2010). Lee et al. (2008) suggest that the audit committee may influence audit timeliness, they do not test the predicted association. Afify (2009) documents that the voluntary establishment of an audit committee reduces audit lag in Egypt. A comprehensive review of the literature on audit committee and financial reporting by Bédard and Gendron (2010) indicates that the association between audit committee and timeliness of financial reporting is inconclusive. Therefore, the objective of this study therefore, is to examine audit committee and timeliness of financial reports of companies quoted in the Nigerian Stock Exchange for the period 2007-2011. To achieve this objective, the paper is divided into five interconnected sections. The next section presents the review of relevant literature on theoretical framework, financial reports, audit committee, timeliness of financial reports and empirical studies. Section three examines the materials and methods used in the study. Section four presents the results and discussion and the final section examines the conclusion and recommendations.

LITERATURE REVIEW

This section reviews the literature that is relevant to the problem under investigation. The review also covers empirical studies in the area focusing attention on the research problems that were investigated by other studies, the hypotheses that were formulated and tested and their findings and limitations. The rationale was to critically use the evidence from the studies to establish the gaps in the literature and also to serve as a basis for validation of the findings of the paper.

Theoretical Framework

The relationship between audit committee and timeliness of financial reporting are examined by two theories; the agency theory and resource dependence. **Agency theory** is based on the relationship between the principal and the agent. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. The theory of agency relationship mirror the basic structure of a principal and an agent who are engaged in cooperative behaviour, but have differing goals and attitudes towards risk. The theory further assumes that principals because of information asymmetry cannot adequately observe actions that agents are taking in their benefit (Barac and Klepo, 2006). According to Stolowy and Breton (2003), if the theory of creative accounting can be constructed, it will not refer to the techniques used to manipulate, but rather to the needs, opportunities and relationships existing between categories of market participants. Davidson *et al*. (2005) argues that when management provides inaccurate financial reporting information, it introduces creative accounting as a type of agency cost. The agency theory provides a basis for the governance of firms through various internal and external frameworks (Weir *et al*., 2002; Roberts *et al*., 2005). The most important basis of agency theory is that the managers are usually motivated by their own personal gains and work to exploit their own personal interests rather than considering shareholders interests and maximizing shareholder value. **Resource dependence theory** views organisations as being dependent on their external environment and suggests that organizational effectiveness results not only from the firm ability to manage resources but more importantly from its capacity to secure basic resources from the environment. Ruigrok et al (2007) document that board member networks and contracts are fundamental for their ability to perform the role boundary spanners securing contract for their companies. This theory is used to underpine the relationship between the boards of directors as provider of resources and financial reporting quality.

Audit Committee

Audit committee is defined as a committee appointed by a company as a liaison between the board of directors and the external auditors, this committee normally has a majority of non-executive directors and is expected to view the company's affairs in a detached and dispassionate manner" (Habbash, 2010). Audit Committees were relatively rare until the 1970s, when large corporations increased their voluntary formation (Appah and Appiah, 2011). As the use of audit committees increased, policy makers, private interest groups, and researchers have advanced numerous concerns about a lack of relevant accounting, auditing and corporate governance knowledge and experience among audit committee members (Lambert et al, 2008; Appah and Appiah, 2010). The Companies and Allied Matters Act 1990, as amended and consolidated in the 2004 Act, stipulates that every public company in Nigeria must have an audit committee. The functions of the committee are spelt out in section 359(6) as follows: "(i) ascertain whether the accounting and reporting policies of the company are in accordance with legal and agreed ethical practices; (ii) review the scope and planning of audit requirements; (iii) review the findings on management matters in conjunction with the external auditors and departmental responses thereon; (iv) keep under the effectiveness of the company's system of accounting and internal control; (v) make recommendations to the board in regard to the appointment, removal and remuneration of external auditors of the company; and (vi) authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee." Ige (2008) states that audit committees were put in place to:

a. Reduce illegal activities and prevent fraudulent financial reporting.

b. Increase the credibility of audited financial statements, help boards of directors in meeting their responsibilities and reinforce the auditor's independence.
c. Strengthen the role of non-executive directors with a view to protecting them from being misled by management.
d. Respond to unexpected corporate failures and corporate malpractices.
e. Deal with the proliferation of corporate scandals in Malaysia.

The purpose of the audit committee is to ensure the accuracy of the financial reports (Buchalter and Yokomoto, 2003; Felo and Solieri, 2009). Regulators around the world have acknowledged the important function of audit committees in financial reporting even before financial scandals occurred at the end of the last decade (Habbash, 2010).

Ojo (2009) says that audit committees and an effective internal control system not only help manage financial, operational and compliance risks, but also "enhance the quality of financial reporting". As well as playing a fundamental role in transmitting financial results to the general public, the audit committee serves as representative of shareholder interests and is required to facilitate a process whereby management, external auditors and the chief executive can be questioned and held to account – if need be. The audit committee is not only responsible for monitoring the financial reporting process, but also the effectiveness of the company's internal controls, the internal audit where applicable, and risk management system (Mitra and Hossain, 2007). It is also assigned with the task of monitoring the statutory audit of annual and consolidated accounts. Abbot et al (2003) find that audit committee independence and expertise have a significant positive impact on audit fees. As "audit committees liaise between the management, internal and external auditors" (Chen, et al., 2005), setting up an audit committee should have a measurable impact on audit services, Gaynor, McDaniel and Neal, (2005) use measures like the proportion of outside members and the number of meetings in order to explain whether attributes of the audit committee have an impact on auditor selection. They state that the effectiveness of the audit committee and audit quality, operationalized by industry specialization of auditors, are complementary aspects of corporate governance.

Timeliness of Financial Reports

The substantial body of literature regarding timeliness of financial reports or the period between the end of the fiscal year and the date of the audit report that has been developed. Timely corporate financial reporting is an important qualitative attribute and a necessary component of financial accounting (Jenfa, 2000; Glautier and Underdown, 2001). Financial information needs to be available to its users as rapidly as possible to make corporate financial statement information relevant decision making process (Belkaoui, 2002; Mainoma, 2002). Timely reporting on financial statements is necessary for healthy financial markets. Timely financial reporting helps in efficient and timely allocation of resources by reducing dissemination of asymmetric information, by improving pricing of securities, and by mitigating insider trading, leaks and rumors in the market (Kamran, 2003). Timeliness in financial reporting enhances the usefulness of the financial information. The timeliness of audited financial reports is considered to be critical and significant determinant impacting the usefulness of financial information made available to external users (Almosa et al., 2007; Aljifri and Khasharmeh, 2010). Audit report lag, which is the number of days from fiscal year end to audit report date, or inordinate audit lag, jeopardises the quality of financial reporting by not providing timely information to investors. Delayed disclosure of an auditor's opinion on the true and fair view of financial information prepared by the management exacerbates the information asymmetry and increases the uncertainty in investment decisions (Mohamad-Nor et al., 2010).

Empirical Studies:

Simnett (1995) in an Australian study reports a steady increase in mean audit delay in Australia over the study period of 1981 – 1989 and find that prior year's audit delay is the major explanatory variable explaining audit delay. They also find that audit delay is inversely related to profit (six of the eight years) and audit complexity but directly related to qualified opinion (three latest years) and busy season year-ends (four of the eight years). They don't find firm size, leverage (except for just one year), extraordinary items, and audit structure in explaining audit delay. Carslaw and Kaplan (1991) study of New Zealand, examine the effect of nine variables on audit delay using data from 245 and 246 listed firms for 1987 and 1988 respectively. The results show that total assets and net profit sign were significant in both years while client industry, extraordinary items, company ownership, and leverage were significant for a single year. In a Canadian study, Ashton et al. (1989) use eight auditor and client specific variables to explain audit delay. They find that companies from non-financial services industry, reporting extraordinary items and losses and those receiving qualified audit opinions had significantly longer delays. On the other hand, company size, busy season (December-January) year-ends, and auditor size –

all inversely related to audit delays. Bonson-Ponte et al. (2008) analyzed the factors that determine delays in the signing of audit reports on the Spanish continuous market for the period from the year 2002 to the year 2005. They found that classification to sectors that are subject to regulatory pressure (financial and energy sector) and the size of company affect the audit delay. Variables such as audit firm, qualifications or regulatory change show no significant relationship with audit delay in Spain. The results show that the companies of larger relative size sign the audit report in fewer days. Also the companies classified to sectors that are regulated internally and are subject to regulatory pressures also sign the audit report before those companies belonging to sectors that are not regulated. Haw and Wu (2000) examine the relation between firm performance and the timing of annual report releases by listed Chinese firms for the period from the year 1994 to the year 1997. They find that good news firms release their annual reports earlier than bad news firms, and loss firms release their annual reports the latest. McGee and Yuan (2011) compare the timeliness of financial reporting in Republic of China, United States and European Union (EU). Their study also compares timeliness data on the basis of audit firm to determine whether companies audited by one of the Big-4 firms are more timely in their financial reporting. Results indicate that Chinese companies took significantly longer time to report financial results than either the EU or US companies. EU companies took significantly longer time to report financial results than US companies. Companies that are not timely in their financial reporting practices find it more difficult to attract capital. Their corporate governance practices are also seen less than ideal, which has a negative effect on a company's reputation within the financial community. Thus, Chinese companies that are slow in reporting their financial results may suffer negative consequences in terms of reputation and ability to raise capital.

Jaggi and Tsui (1999) examine the impact of company specific characteristics on audit delay in Hong Kong by incorporating firm's financial condition, ownership control and audit firm technology. They obtain data from 393 firms listed on the Hong Kong Stock Exchange over a period of three years from 1991 to 1993. Their results show that firm size, firm's financial condition, audit approach (degree of structure), degree of diversification, and audit opinion are significant explanatory variables for audit delay in Hong Kong. Abdulla (1996) finds a significant relationship between timeliness and firm size, profitability, and distributed dividends. Owusu-Ansah (2000) employs a two-stage least square regression model and finds size, profitability and company age as significant determinants of reporting lags of Zimbabwean listed companies. Imam et al. (2001) focus on possible association between audit delay and audit firms' international links – a proxy for auditor quality. They find that auditors with international links take longer to complete than their unaffiliated peers. Ahmed (2003) reports long delays in reporting to shareholders in three South Asian countries namely India, Pakistan and Bangladesh. Using a large sample of 558 company annual reports for the year 1997-1998 comprising 115 reports from Bangladesh, 226 reports from India and 217 reports from Pakistan, Ahmed finds that the total lag between the financial year end and holding the annual general meeting is, on average, 220 days, 164 days and 179 days in Bangladesh, India and Pakistan, respectively. In Bangladesh, Ahmed did not find any association between corporate characteristics and timely reporting. Karim et al (2006) Using more than 1200 firm-year observations over a period of 10 years, we find that regulatory changes have not improved timeliness in reporting, as measured by audit lag, issue lag and total lag. Although we find that large firms take shorter time to publish their annual reports compared with small firms, the lags, on average, have deteriorated significantly following the passage of legislation in Bangladesh. Ku Ismail and Chandler (2004) study of 117 quarterly reports of Kuala Lumpur Stock Exchange suggests that size, profitability, growth and capital structure are significantly related to timeliness. Modugu et al (2012) study of determinants of audit delay in Nigeria for a sample of 20 quoted companies for a period of 2009 to 2011. The audit delay for each of the companies revealed that it takes a minimum of 30 days and a maximum of 276 days for Nigerian companies to publish their annual reports. Nigeria listed companies take approximately two months on the average beyond their balance sheet date before they are finally ready for the presentation of the audited accounts to the shareholders at the annual general meetings. The results from the panel data which was estimated using Ordinary Least Square regression showed that the major determinants of audit delay in Nigeria include multinationality connections of companies, company size and audit fees paid to auditors.

A review of the related literature on the effectiveness of the audit committee in strengthening the financial reporting system by Bédard and Gendron (2010) indicates that the associations between audit committee size, independence, competency and meetings with the quality of financial reporting are stronger in the US than other countries. Based on their review, they show that the characteristics of the audit committee that have the greatest impact (with the figures in parentheses indicating the proportion of studies/analyses reviewed that show positive association between the characteristic and audit committee effectiveness) are existence (69%), followed by independence (57%), competence (51%), number of meetings (30%) and size (22%). They conclude that the effectiveness of audit committee practices may vary with "environmental factors such as concentration of ownership, enforcement level and exposure to lawsuits" (Ibid), and mimicking the best US practices regarding audit committees may not deliver the desired effect. Borrowing from the insights generated by some of the studies reviewed in Bédard and Gendron (2010) and other studies, especially in Asia, that are not covered in Bédard and Gendron (2010), we present the hypothesised association between audit committee characteristics and audit report lag below. We also borrow insights from other studies on the relationship between board characteristics and accruals quality to develop hypotheses linking board characteristics with another aspect of financial reporting quality; namely, the timeliness of audited financial statements.

Hypotheses Development

Audit Committee Independence: An audit committee should be independent from management in order to be able to conduct effective monitoring, resulting in less opportunistic management behaviour, such as lag in the reporting architecture. The quality and credibility of financial reporting can be badly affected when the audit committee has low or no independence (Habbash, 2010). One of the objectives of the audit committee is to give unbiased reviews on financial information, and audit committee independence can contribute to the quality of financial reporting (Kirk, 2000). Beasley and Salterio (2001) argue that companies that have the incentive and ability to increase the strength of the audit committee will do it by including more outside directors in the committee than the minimum number as required by legislation. Klein (2002), Abbott et al (2004), Bédard et al. (2004), and Archambeault et al (2008) show that audit committee independence reduces earnings management, the likelihood of financial reporting restatement and financial reporting fraud. Furthermore, the likelihood that companies receive a going concern opinion is influenced by the number of outside directors in the audit committee (Carcello and Neal, 2000). Vicknair *et al*. (1993) argue that, in order to function effectively, audit committees must be independent of the management as this allows both the internal and external auditors to remain free of undue influences and interferences from corporate executives. Similarly, Choi *et al*. (2004) find that, when members of the audit committee hold shares in their firm, they are less effective in mitigating earnings management. Thus, the independence of the audit committee is a key factor in enhancing its role in preventing mis-statements in the financial reports. This discussion leads to the following hypothesis:

H01: *There is no significant relationship between audit committee independence and timeliness of financial reports*

Audit Committee Meeting: The establishment of an audit committee is meant to ensure continuous communication between external auditors, internal auditors and the board, where the committee meets regularly with the auditors to review the financial statements and audit processes as well as the internal accounting systems and controls (Habbash, 2010). The frequency of meetings indicates an active audit committee that devotes time to rectifying any immediate issues and offers a better review and oversight environment, which, in turn, may assist in detecting financial statements errors. A review of relevant empirical literature shows that most studies on audit committee meeting and financial reporting quality do not find significant relationships. However the studies of Li et al. (2008) and Xie, et al. (2003) show relationship between audit committee and timeliness of financial reports. Li et al. (2008) show that audit committee meeting frequency is positively related with level of corporate disclosure. Xie et al. (2003) document that when audit committees meet more frequently, discretionary accruals are lower. In addition, Abbott et al. (2004), Vafeas (2005) and Persons (2009) document that higher level of audit committee activity is significantly related to a lower incidence of financial restatement, or reporting a small earnings increase, or fraudulent financial reporting. This discussion leads to the following hypothesis:

H02: *There is no significant relationship between audit committee meeting and timeliness of financial reports.*

Audit Committee Size: The number of audit committee members is used as an indication of resources available to this committee. Mohammad-Nor et al (2010) document that potential problems in the financial reporting process are more likely to be uncovered and resolved with a larger audit committee. This could arise if a larger committee size increases the resources available to the audit committee and improves the quality of oversight. Li et al (2008) and Persons (2009) show that the audit committee size influences corporate disclosures. Abbott *et al*. (2004) examine 41 firms that issued fraudulent reports and 88 firms which restated annual results in the period 1991-1999. They find that audit committee size had no significant impact on financial reporting quality. This study did not use discretionary accruals as a measure for earnings quality. Instead, it used financial restatements for a very small sized sample of 41 firms. However, Lin, *et al*. (2006) finds a negative association between audit committee size and financial restatement. Therefore, on the basis of the discussion above, the following hypothesis was formulated:

H03: *There is no significant relationship between audit committee size and timeliness of financial reports.*

Audit Committee Financial Expertise: Audit committees are responsible for numerous duties that require a high degree of accounting sophistication such as understanding auditing issues and risks and the audit procedures proposed to address them, comprehending audit judgments and understanding the substance of disagreement between the management and an external auditor, and evaluating judgmental accounting areas (Mohammad-Nor et al., 2010; Habbash, 2010). DeZoort and Salterio (2001) document that audit committee members with previous experience and knowledge in financial reporting and audit are more likely to make expert judgments than those without. Xie et al. (2003), Abbott et al. (2004) and Bédard et al. (2004) also report that audit committee financial expertise reduces financial restatements or constrains the propensity of managers to engage in creative accounting. DeFond et al (2005), document that appointment of accounting financial experts generates positive stock market reaction in line with market expectation that the audit committee members' financial sophistication is useful in executing their role as financial monitors. On the basis of the above, the paper stated the following hypothesis:

H04: *There is no significant relationship between audit committee financial expertise and timing of financial reports.*

MATERIALS AND METHODS

Research Design: The study used ex post facto research design. Two attributes of time element (2008-2011) and cross sectional element (thirty firms) qualify this as a panel study or cross sectional time series study.

Sources of Data: The data used in this study were sourced from the Annual Reports and Accounts of the various firms from 2008-2011. Historical details concerning the sampled firms were derived from the Nigerian Stock Exchange Fact Book from 2008-2011.

Population and Sample Selection: A total of one hundred and eighteen (118) companies quoted on the Nigerian Stock Exchange (NSE) represent the population of this study. The firms included in the sample were selected using simple random sampling technique to arrive at the thirty-five (35) firms selected for the study.

Research Variables:

Endogenous variable: Timeliness of Financial Reports (TFR) Consistent with prior literature the ARL is defined as the period between a company's fiscal year end and the date of the auditor's report, measured in days. The audit report lag model used in this study is adapted from prior studies (Leventis et al., 2005; Lee et al., 2009, Krishnan & Yang, 2009; Johnson et al., 2002).

Exogenous variable:

Audit Committee Independence (ACI): The proportion of independent nonexecutive directors on audit committee.

Audit Committee Meeting (ACM): 1, if at least four meetings are held during the financial year.

Audit Committee Financial Expertise (ACE): Proportion of audit committee members who have accounting or financial management knowledge.

Audit Committee Size (ACS): Number of audit committee members.

Model Specification: Koutsoyianis (2003) Greene, (2002), Wooldridge, (2006); Asterious and Hall, (2007); Brooks (2008); Gujarati and Porter, (2009); Kozhan, (2010) report that model specification is the determination of the endogenous and exogenous variables to be included in the model as well as the a priori expectation about the sign and the size of the parameters of the function. Excel software helped us to transform the variables into format suitable for analysis, after which the econometric view (E-view) and Micro fit was used for data analysis. The ordinary least square was adopted for the purpose of hypothesis testing. The ordinary least square was guided by the following linear model:

$$Y = f(X1, X2, X3, X4) \quad \ldots\ldots (1)$$

$$TFR = f(ACI, ACM, ACE, ACS) \quad \ldots\ldots (2)$$

$$TFR = \beta_0 + \beta_1 ACI_1 + \beta_2 ACM_2 + \beta_3 ACE_3 + \beta_4 ACS_4 + \varepsilon \quad \ldots\ldots (3)$$

The a priori expectation is $\beta 1\text{-}\beta 4<0$

RESULTS AND DISCUSSION

This section of the paper presents the results and discussion obtained from data collected from the thirty-five (35) firm's financial statements for the period 2008-2011.

Table 1: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	7.24946	Probability	0.215336
Obs*R-squared	11.27514	Probability	0.186531

Source: e-view output

Table one above shows the Breusch – Godfrey Serial Correlation LM test for the presence of auto correlation. The result reveals that the probability values of 0.21 (21%) and 0.18 (18%) is greater than the critical value of 0.05 (5%). This implies that there is no evidence for the presence of serial correlation.

Table 2: White Heteroskedasticity Test:

F-statistic	3.925645	Probability	0.392841
Obs*R-squared	8.149672	Probability	0.338535

Source: e-view output

Table two above shows the White Heteroskedasticity test for the presence of heteroskedasticity. The econometric result reveals that the probability values of 0.392 (39%) and 0.33 (33%) are considerably in excess of 0.05 (5%). Therefore, there is no evidence for the presence of heteroskedasticity in the model.

Table 3: Ramsey RESET Test:

F-statistic	0.083894	Probability	0.684732
Log likelihood ratio	0.074125	Probability	0.653241

Source: e-view output

Table three above shows the Ramsey RESET test for misspecification. The econometric result suggests that the probability values of 0.68 (68%) and 0.65 (65%) are in excess of the critical value of 0.05 (5%). Therefore, it can be seen that there is no apparent non-linearity in the regression equation and so it would be concluded that the linear model for the accounting services is appropriate.

Table 4: Dependent Variable: TFR
Method: Pooled Least Squares
Date: 08/11/12 Time: 03:12
Sample : 2008-2011
Included observations: 4
Cross section included: 35
Total pooled observation: 140

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.307938	0.943564	1.386167	0.1689
ACI	0.262291	0.093969	2.791255	0.0063
ACM	0.086992	0.096780	0.898861	0.3710
ACE	0.477722	0.104709	4.562360	0.0000
ACS	0.044202	0.045028	0.981651	0.3287

R-squared	0.289527	Mean dependent var	11.14851
Adjusted R-squared	0.272423	S.D. dependent var	3.935444
S.E. of regression	2.573361	Akaike info criterion	4.776540
Sum squared resid	635.7300	Schwarz criterion	4.906002
Log likelihood	-236.2153	Hannan-Quinn criter.	4.828950
F-statistic	34.46906	Durbin-Watson stat	1.953785
Prob(F-statistic)	0.000021		

Source: e-view output

The table above shows the multiple regression output for audit committee characteristics and timeliness of financial reports of quoted companies in Nigeria. The result of the global statistics suggests that audit committee independence (ACI) is significantly related to the timeliness of financial reports. That is the p-value of 0.0063 is less than the critical value of 0.05. This implies that a firm with more audit committee independence tends to have a longer financial report lag. The result is consistent with Besley et al. (2000), Klein (2002), Abbott et al (2004) and Saleh et al (2007) that a significant relationship exists between audit committee independence and accounting quality. But Lin et al (2006) found no significant relationship between audit committee independence and timeliness of financial reports. Audit committee meeting (ACM) is not significantly related to timeliness of financial reports. That is the p-value of 0.3710 is greater than the critical value of 0.05. This result conforms to the finding of Lin et al (2006), Saleh et al (2007). Lin et al (2006), documents that there is no significant relationship between audit committee meeting and quality of financial reporting. Saleh et al (2007) reported that the relationship is insignificant. Audit committee expertise (ACE) is significantly related to the timeliness of financial reports. That is the p-value of 0.0000 is less than the critical value of 0.05. This result is consistent with McDaniels et al (2002) that report that there is a role of financial espertise for audit committee reporting of financial statement problems. DeFond et al (2005), document that appointment of accounting financial experts generates positive stock market reaction in line with market expectation that the audit committee members' financial sophistication is useful in executing their role as financial monitors. Zhang et al (2007) find that firms are more likely to be identified with deficiencies in internal control over financial reporting if their audit committees have less financial expertise. All in all, these studies suggest that financially knowledgeable audit committee members are more likely to prevent and detect material misstatements. Audit committee size (ACS) is not significantly related to the timeliness of financial reports. That is the p-value of 0.3287 is greater than the critical value of 0.05. This result is consistent with Xie et al (2003) that there is an insignificant relationship between audit committee size and earning management. Also, Abbott et al (2004) reported that an insignificant relationship exists between audit committee size and earning restatement. The relative statistics of R^2 (coefficient of determination) of 0.289527 (29%) and adjusted R^2 of 0.272423 (27%) shows that the variables combined determines about 29% and 27% of timeliness of financial reports quality. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the variables combined of timeliness of financial are statistically significant (F-stat =34.46906; F-pro. = 0.000021).

Pairwise Granger Causality Tests
Date: 08/11/12 Time: 03:21
Sample: 2008-2011
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
ACI does not Granger Cause TFR	110	1.41230	0.0266
TFR does not Granger Cause ACI		2.70756	0.0698
ACM does not Granger Cause TFR	140	0.08008	0.9231
TFR does not Granger Cause ACM		2.59142	0.0781
ACE does not Granger Cause TFR	140	0.26474	0.0477
TFR does not Granger Cause ACE		3.27396	0.4304
ACS does not Granger Cause TFR	140	0.29961	0.7415
TFR does not Granger Cause ACS		0.52598	0.5920

Source: e-view output

The result above shows the granger causality between audit committee characteristics and timeliness of financial reports of quoted firms in Nigeria. Audit committee independence (ACI) does granger cause timeliness of financial reports (TFR), That is the p-value of 0.0266 is less than the critical value of 0.05. While TFR does not granger cause ACI because the p-value of 0.0698 is greater than the critical value of 0.05. Audit committee meeting (ACM) does not granger cause TFR because the p-value of 0.9231 is greater than the critical value of 0.05. While TFR does not granger cause ACM (0.0781>0.05). Audit Committee expertise (ACE) does granger cause TFR because p-value of 0.0477<0.05, while TFR does not granger cause ACM because 0.4304>0.05. Audit committee size (ACS) does not granger cause TFR because (0.7415>0,05) and TFR does not granger cause ACS because 0.5920>0.05. This result is consistent with the pooled regression output above.

CONCLUSION AND RECOMMENDATIONS

The study examined the effect of audit committee characteristics and the timeliness of audit reporting. The characteristics of an audit committee that was 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. Review of literature provides strong evidence of the effectiveness of audit committee on timeliness of financial reports. The research empirically substantiated the results of prior studies of the relationship between audit committee characteristics and timeliness of financial reports. The study highlights the various variables in the audit committee factors and timeliness of financial reports. The empirical analysis provided that audit committee independence (ACI) is significantly related to the timeliness of financial reports; Audit committee meeting (ACM) is not significantly related to timeliness of financial reports; Audit committee expertise (ACE) is significantly related to the timeliness of financial reports and Audit committee size (ACS) is not significantly related to the timeliness of financial reports. On the basis of the empirical result, the paper concludes that audit committee characteristics affect the timeliness of financial reports. This is because an objectively established audit committee in any corporation will go a long way in achieving quality financial reports that would ensure timely presentation to shareholders and other users for decision making. Therefore, on the basis of the findings and conclusions of the study, the paper recommends among others that quoted companies should ensure that members of audit committees are people with high level of integrity that will not compromise ethical standards and behaviour; members of audit committee should be people with some level of knowledge and experience in financial management and accounting to understand the accounting and monitoring role of the committee; managers and owners of corporations must endeavour to be objective in the election or selection process for members of audit committee; government through relevant agencies should sanction erring corporation that fails to adhere to best practice in corporate governance structure in the area of audit committee.

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