Moderating Effect of Audit Liberty on Reporting Timeliness of Non-Bank Financial Firms in Nigeria

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ABSTRACT
This study investigated the effect of auditors' liberty on audit reporting timeliness of financial firm in Nigeria from (2011-2020). Two research hypotheses were formulated for the study. Ex-post facto research design was employed in the study. The population of the study included all financial firms quoted and trading on the Nigerian Exchange Group (NXG) (NSE) as at 31st December 2021 with a sample size of Twenty-three (23) financial firms selected from the population sector. The study relied on secondary sources of data which was obtained from Annual reports of sampled firms as provided by individual firms and Nigerian Exchange Group (NXG) website. Random Effect Panel least square regression analysis was employed in validating the hypotheses. The study revealed a significant negative effect of audit fees on audit reporting timeliness while there is no moderating effect of audit committee gender diversity on the association between audit fee and audit reporting timeliness. Consequent on the findings, the study therefore recommends amongst others that companies should engage Audit firms with better exposure who will put due diligence and professional ethics above any pressure resulting from high or low fee. The study also recommended that firms should budget an optimal amount for audit fees to ensure they do not spend more than necessary yet not compromising audit quality and reporting timeliness. Further studies can be undertaken on other specific factors that affect audit report lag in manufacturing companies and the oil and gas sector.

Keywords: *Audit liberty, Audit Fee, Audit committee gender diversity, Audit report timeliness.*

1.1 INTRODUCTION

Distress in the financial sector had raised considerable measure of concern with a series of well-publicized cases of accounting improprieties in the sector, such as the case of Oceanic Bank, Intercontinental Bank, Wema Bank, Finbank, Springbank, and Diamond bank of late (Hyginus, Hyacinth & Undie, 2021). Although, the case of Diamond bank was tactically described as a merger, the sudden failures of these banks resulted in their demise and has captured the attention of investors, regulators as well as that of the researchers (Adeyemi & Fagbemi, 2010). Moreover, the global financial crisis has highlighted the need for credible high quality and timely financial reporting, which can be relied upon (Farouk & Hassan, 2014). Achieving this quality and timely financial reporting depends on the role management and external audit play in the preparation of financial statement (Farouk & Hassan, 2014). While it is the responsibility of the management to prepare these financial statements in line with generally accepted accounting principles and standards; the separation of ownership and control in modern firms, in the form of management and shareholders, has created agency problem, which requires shareholders in order to assure that management act in their best interest employ auditors to attest to the truth and fairness of the financial statements (Ojo, 2009)

According to Ojo (2009) the involvement of external auditors could contribute to corporate governance and address the inherent agency problem, because the auditor can facilitate a situation where by managers are encouraged or compelled to be held accountable. Porter, Simon and Hatherly (2008) describes an external audit as an examination of an entity's financial statements to provide evidence supporting the information contained in those statements. The quality of this examination thus depends on auditor's liberty as proposed by Aren, Elder, Randal, Beasley and Mark (2014) that the value of auditing depends heavily on the public's perception of the liberty of auditors. Sadly, Audit quality in recent times has become a major concern locally and globally as most auditors seem not to be discharging their duties independently (Aren, Elder, Randal, Beasley & Mark, 2014). Clients appear to be deciding for the auditor the audit scope, approach and opinion which largely influences the auditors Fee, switching, tenure and quality leading to massive corporate failures (Cullinan, 2004).

On this basis, a high-quality audit report by an independent external auditor serves as an instrument that prevents corporate failure. But if the opinion is not issued on time, it loses relevance as a decision-making tool (Farouk & Hassan, 2014). Thus, the declining face of reporting quality as well as audit delay hence created the impetus for this study. Previous literature demonstrated that the audit committee plays a crucial role in ensuring credibility in the conduct of financial reporting (Qeshtaa & Ali, 2020). The Audit Committee is unlikely to tamper with financial statements. However, when such manipulation occurs, it can only be due to a lack of independence, honesty, integrity and accountability among committee members (Juhmani, 2017). Prior studies such as Qeshtaa and Ali, (2020) also showed that most of the corporate scandals that took place after the audit committee was established were due to the audit committee not performing its duties as expected.

The irregularities and criticisms that companies have faced stem from the failure of an audit committee to carry out effective financial oversight (Bin-Ghanem & Ariff, 2016). Some members of the audit committee may even conspire with company leaders to carry out fraudulent schemes (Bansal & Sharma, 2016) if they lack certain qualities and attributes among themselves. Based on these, the characteristics and composition of the audit committee have a significant effect on the quality of the audit of firms. Therefore, the audit committee should be composed of independent individuals with a diverse population (Qeshtaa & Ali, 2020). As a result, a well-formed audit committee should consist of strong independent members of mixed gender, racial, etc.

1.2 Statement of problem

Several studies in developed countries have given empirical evidence that audit report timeliness is the most influential factor in the audit of financial statements (Al-Sehali & Spear, 2004). There is a vast number of studies on audit report timeliness in both developed and developing countries (Al-Sehali & Spear, 2004). However, the literatures on audit liberty and audit report timeliness appear to be scanty. More so, most earlier studies conducted in Nigeria focused only Insurance firms and banks (Ovbiebo, 2021); while others focused on manufacturing firms considering industrial goods and consumer goods manufacturing firms quoted in Nigeria – These studies found mixed results regarding audit liberty and audit report timeliness (Ogun, Edoumiekumo & Nkak, 2020; Appah, & Tebepah, 2020).

It is therefore clear from the prior studies that researchers have not properly established a clear-cut direction of the relationship between audit liberty and audit report timeliness of non-bank financial firms in Nigeria. Considering the extent of this research and to the best of our knowledge, the novelty of this study over other previous studies is that the effect of independence of the auditors, her fees on the audit report timeliness moderated by audit committee gender diversity were not previously extensively explored in the financial firms in Nigeria. There is therefore need to sample purely non-bank financial firms with particular emphasis on the ones quoted on the floor of Nigerian exchange group.

Moreover, most of the literature examined audit liberty and audit reporting timeliness while considering only two to six years to explain the effect giving no clear reason and practical explanation. However, using a longer time period of ten years and extending study reach by investigating non-bank financial firms could provide a more in-depth interpretation that could lead to more reliable results. It is therefore necessary to expand the work that has alluded to the value of audit liberty with a very critical indicator such as and audit fee. More so, further theorizes and test how the audit liberty play a role in sustaining auditors' report timeliness in financial firms of an emerging economy context. The current study thus seeks to investigate and fill this gap thereby contributing to the body of knowledge. There is also a need to extend the body of literature by investigating the moderating effect of audit committee gender diversity on the association between audit liberty and audit reporting timeliness.

The study therefore investigates the moderating effect of audit committee gender diversity on the association between audit liberty (audit fee) on audit reporting timeliness of quoted non-bank financial firms in Nigeria. The entirety of this paper is subdivided into five sections. First section covers the introduction, second section, covers the review related literatures to explore the theoretical constructs and hypothesis development while third section discusses the methodology. In the fourth section, the study explored the data presentation and analysis while in the last section, the conclusion and recommendations for policy implication was drawn.

2.1 THEORETICAL CONSTRUCT AND HYPOTHESES DEVELOPMENT

2.1.1 Audit Fees and Audit reporting timeliness

According to Aktas and Kargin (2011) the audit reporting timeliness known as corporate reporting timeliness is an expression of the auditors' capacity to deliver on time. Habib, Bhuiyan, Huang and Miah (2019) postulated that clients may be willing to pay higher fees for a quicker completion of audit procedures. This also conforms to Rubin (1992) who stated that clients will prefer to cater for additional staff, overtime and more concentrated audit resources resulting in shorter period in which the audit report will be ready. Leventis, Weetman and Caramanis (2005) found that payment of a high audit fee can reduce the audit report lag of listed firms on the Athens Stock Exchange. Abbaszadeh (2017) reported a negative and significant relationship between the audit fees and delay in audit reports. Overall, these studies report negative association between audit fees and audit report lag. Other studies suggest a positive association between audit fees and audit report lag. Lobo and Zhao (2013) attributes higher audit fees to extra and more detailed audit effort needed which will tend to cause the audit process to drag, hence a longer audit report lag. Defond & Zhang (2014) also stated that high audit fees will facilitate the assignment of qualified auditors who will use more time to ensure they detect mistakes and errors in the financial statements. In line with this, the study hypothesis is formed thus:

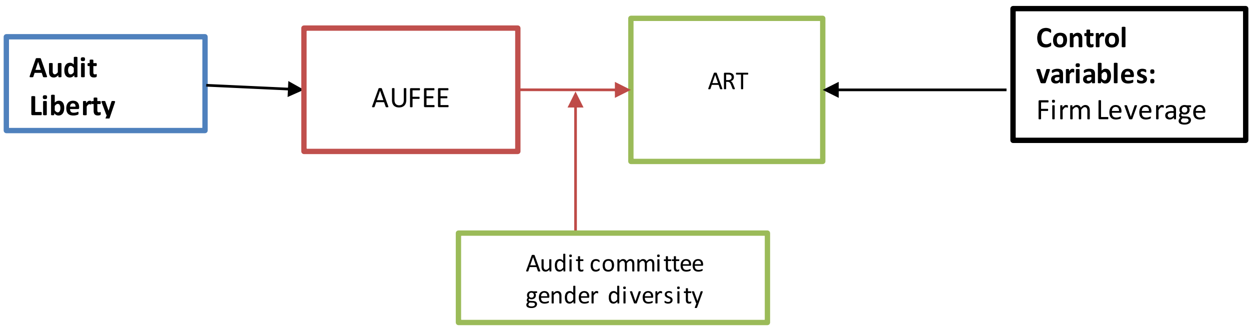
***H_{01}**: Audit fee has no significant effect on audit report timeliness of quoted non-bank financial firms in Nigeria.*

2.1.2 Audit fee and Audit report timeliness moderated by Audit committee diversity

Ofor, Orjinta and Mayah, (2022) define gender diversity in audit committees as a rational mix of genders on an organization's audit committees. The audit committee is seen as adding value and performance as it offers new insights and perspectives. They pointed out that women have the trait of being more careful in financial matters and have a natural tendency to avoid risk. The above statements suggest that the female sex is inherently endowed with a special psychological ability that allows her to coordinate her entrepreneurial responsibilities with great care and power. Ratna and Bambang (2020) found that the audit committee with female directors tends to lower the level of corporate profit management, and that this becomes more effective when it is balanced with the financial expertise of female audit committee members. Albawwat et al. (2019) examined the gender characteristics of audit committee members and the quality and timeliness of financial reports and found that there is a positive association between the presence of a woman on the audit committee and the quality of financial reports and timeliness. This is also reflected in Abbaszadeh (2017) who reported a negative and significant relationship between the audit fees and delay in audit reports. Although, other studies on audit fees and audit report timeliness suggest a positive association between audit fees and audit reporting timeliness implying that higher audit fees can be attributed to extra and more detailed

audit effort needed which will tend to cause the audit process to drag, hence a longer audit reporting time (Lobo & Zhao, 2013). Therefore, the first hypothesis is:
***H_{02}**: There is no significant moderating effect of audit committee diversity on the association between audit fees on audit report timeliness of quoted non-bank financial firms in Nigeria.*

Fig. 2.1: Schematic Representation of conceptual framework



Source: Author's Conceptualization (2022)

The conceptual diagram shows the decomposition of the independent variable (Audit fee). The arrows also indicated the relationship between the independent and dependent variables where IV represents independent variable and DV represents dependent variables. The schematic diagram also shows the moderator variable (Audit committee gender diversity) as well as the control variables (Firm leverage).

2.2 Theoretical Framework

The current study is anchored on the agency theory. The justification for this theory is that it clearly mirrors the situation where a principal (owner) contracting an agent (manager) to act on his/her behalf. As Jensen et al. (1976) explain, contracting involves delegating decision-making authority to the agent.

2.2.1 Agency Theory

Agency theory maintains that managers will not act to the best interest of shareholders by maximising their return unless appropriate governance structures are implemented by very big corporation to protect the interest of shareholders (Jensen & Meckling 1976). In their view, Agency theory assumes that each party is acting on their own interests, Principals see the excellent performance of the agents (managers) if the agent is able to maximize earnings and allocated to dividend distribution so the higher earnings and share price, the better the performance of the agent thus the agent gets a high incentive. The Agency theory concentrates on the means through which management of firms can be highly ethical in operation and producing what is true and fair in curtailing opportunistic attitude of managers (Ibrahim, Mansor & Nasidi, 2020). Ratna and Bambang (2020) opined that principal give authority to agents to run their companies with the capabilities and expertise they have. Similarly, Agyemang-Mintah and Schadewitz (2017), stated that the relationship between the principal and the agent conveys two challenges which are information asymmetry between the principal and agent as well as probability of conflict or a divergence of interest between the principal and the agent; in the case of the latter, the agent (manager) may choose to focus on their own personal objectives rather than the primary objectives of wealth maximization for shareholders. A free flow of information between internal and external agents of the company mitigates agency costs by monitoring the audit process and consequently reduces information asymmetries. In this regard, management role is to create an atmosphere where external auditors corroborate management information in a timely manner.

3. METHODOLOGY

Ex post facto research design was used to describe the moderating effect of audit committee gender diversity on the association between audit liberty and audit reporting timeliness of twenty-three financial firms in Nigeria for a period of ten years spanning 2011 to 2020 by using existing secondary data on the selected proxies from financial statement of the quoted firms which cannot be manipulated or altered by the researcher. The financial firms used are shown in Appendix one. Only twenty-three (23) firms were used based on complete data availability and regulatory environment as at 31st December 2021. Audit reporting timeliness was taken as the dependent variable and was measured using the time lag from the fiscal year end of each financial firm to the audit report date. Audit liberty was taken as the independent variable proxied using audit switching, audit tenure and audit fees.

The Descriptive statistics was used to analyze the data in order to ascertain the nature of the data. Moreso, to check for the case of perfect correlation among variables, the variance inflation factor (VIF) was conducted to test for the presence of multi-colinearity. The study also carried out some preliminary data tests like descriptive statistics and variance inflation factor (VIF) analysis with the aid of E-views, 9.0. The Haushman's test was also carried out to ascertain the most suitable regression method between FE and RE regression. Finally a test for Heteroskedasticity was carried out to know if Heteroskedasticity exists in the model. That is where the standard errors of the variables monitored are non-constant.
Finally, the study used ordinary least regression analysis in obtaining functional causal effect between the regressors putting into consideration the fixed or random effect testing for interpretation of regression result. The model adopted in this study assumed a linear relationship between audit independence and audit report lag while ordinary least square (OLS) was adopted to validate the hypotheses and was guided by the following linear model:

$$ART_{it} = \beta_0+\beta_1 AUDFEE_{it} + \beta_2 ACGD_{it}*(AUDFEE_{it}) + \beta_3 FL_{it} + +\varepsilon_{it}\ldots\ldots\ldots[1]$$

Where,

ART = Audit Report Timeliness

AUDFEE = Audit Fee

ACDG = Audit Committee Gender Diversity

FL = Firm Leverage

4 RESULTS AND DISCUSSION OF FINDINGS

Descriptive Statistics

The descriptive statistics described the general distributional properties of the data, to identify any unusual observations or any unusual patterns of observations that may cause problems for later analyses to be carried out on the data. Hence, initial exploration of the data using simple descriptive tools was done to describe and summarize the data generated for the study. The table below shows the descriptive statistics of the selected financial firms in Nigeria that make up the sample of the study.

Table 4.1: Descriptive Statistics

	ART	AUDFEE	ACGD	FL
Mean	149.1211	4.186368	12.21547	1.293363
Median	112.0000	4.110000	16.67000	1.000000
Maximum	591.0000	4.910000	50.00000	28.60000
Minimum	9.000000	3.320000	0.000000	-86.74000
Std. Dev.	99.96355	0.304617	14.01448	7.032635
Skewness	1.608375	0.312784	0.903728	-8.311304
Kurtosis	5.473713	2.524325	3.049861	113.3552
Jarque-Bera	153.0034	5.738537	30.37802	115723.9
Probability	0.000000	0.056740	0.000000	0.000000
Sum	33254.00	933.5600	2724.050	288.4200
Sum Sq. Dev.	2218382.	20.59976	43602.06	10979.67
Observations	223	223	223	223

Source: Authors' Summary statistics, 2022/E-views, 9.0

The descriptive statistics result shows the mean values for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera values which show the normality and nature of the data. The result provides an insight into the nature of the financial firms used in the study. The researcher sought to establish the central tendency and distribution of audit liberty and audit reporting timeliness among the selected financial firms in Nigeria. Audit reporting timeliness which is the dependent variable was measured by the number of days from the firms' fiscal year end to the time of signing the audit report. It was observed that over the period under review that the audit report lag has an average value in days of 149days (4moths and 29 days) with standard deviation of 99.96. While the minimum and maximum values are 9days and 591 days respectively. This implies that most of the financial firms in Nigeria experiences audit delays for more than 3month after the fiscal year end.

It was also observed that the audit liberty by audit fees and moderating variable (ACGD) showed average value of 4.19, 12.22 respectively. With standard deviation of 0.30 and 14.01. Finally, a data set is considered to be normal if skewness is between -2 to +2 and kurtosis is between -7 to +7 (Bryne, 2010). The descriptive statistics revealed a skewness and kurtosis between (-2 to +2; -7 to +7) for audit reporting timeliness, audit fee, and audit committee gender diversity. Based on this, these data for the study are considered normal. Only the control variable (Firm leverage) revealed a skewness and kurtosis above (+2, +7) which is not normal. However, they are not likely to distort the conclusion and are therefore reliable for drawing generalization.

4.2.1: Variance Inflation Factors

Multi-collinearity was tested by computing the Variance Inflation Factor (VIF) and its reciprocal or the tolerance. Collinearity diagnostics measure how much regressors are related to other regressors and how this affects the stability and variance of the regression estimates. To further check for multi-collinearity problem or to know whether the independent variables used are perfectly correlated, we conducted Variance Inflation Factor (VIF) to further check for the multi-collinearity problem. The result of the Variance Inflation Factor (VIF) is provided below in table 4.2. below:

Variance Inflation Factor (VIF)

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	8243.979	191.2078	NA
AUDFEE	468.1327	191.2914	1.002986
ACGD*(AUDFEE)	0.012954	1.783589	1.003650
FL	0.880313	1.039441	1.005287

Source: Author's summary of VIF, (2022)

To detect multi-collinearity, the study used the variance inflation factor (VIF) test to quantify its severity in our model, where the variance factors of each variable is calculated. According to the guidelines of this test, the existence of multi-collinearity can be confirmed only in circumstances where the value of the variance inflation factor is more than 10. Based on the VIF test and the

Pairwise rank correlation, we found that there is no inter-correlation between our independent variables. It can also be observed from the table 4.2 that all the variables had a variance inflation factor (VIF) of less than 10: audit fee (1.002986), moderating effect of audit committee gender diversity on audit fee (1.003650), and firm leverage (1.005287). This entails that there is no multi-collinearity problem with the variables, thus all the variables were maintained in the regression model.

4.2.2: Hausman Test

Correlated Random Effects - Hausman Test
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.592694	3	0.8981

The Hausman test result above shows a chi-square statistics value of 0.592694 and probability value 0.8981 which is above 5%, this means that there is heterogeneity in the collection of the firms' data. Since the Chi-square (Prob) value is greater than 5%, hence we reject the fixed effect and interpret while the random effect is accepted and considered for interpretation of the regression.

4.2.3: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.403505	Prob. F(3,219)	0.2427
Obs*R-squared	4.206545	Prob. Chi-Square(3)	0.2400
Scaled explained SS	6.319195	Prob. Chi-Square(3)	0.0971

Source: Authors' Summary statistics, 2022/E-views, 9.0

Table 4.3.1 shows the heteroscedasticity test which is to conclude that there is no heteroskedasticity if the F-statistic and observed R- square values are respectively greater than the critical values at 5% level. In the absence of this, there is heteroskedasticity in the model. The test table hence showed a p-value of 0.2400 ($p > 0.05$). Therefore, we conclude that the model is free from heteroskedasticity. This therefore implies that our probability values for drawing inference on the level of significance are reliable and valid. This also mean that there is no need for robust or weighted least square regression.

4.4: Test of Hypotheses and Discussion of Findings

Random Effect Regression

Cross-section random effects test equation:
Dependent Variable: ART
Method: Panel Least Squares

Variable	Coefficien	Std. Error	t-Statistic	Prob.

			t	
C	573.8054	145.5675	3.941850	0.0001
AUDFEE	-101.3147	34.72581	-2.917562	0.0039
ACGD*(AUDFEE)	-0.034677	0.122269	-0.283610	0.7770
FL	0.945651	0.814804	1.160587	0.2472
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.474355	Mean dependent var		149.1211
Adjusted R-squared	0.407649	S.D. dependent var		99.96355
S.E. of regression	76.93628	Akaike info criterion		11.63305
Sum squared resid	1166081.	Schwarz criterion		12.03030
Log likelihood	-1271.085	Hannan-Quinn criter.		11.79341
F-statistic	7.111114	Durbin-Watson stat		1.742258
Prob(F-statistic)	0.000000			

Source: Authors' Summary statistics, 2022/E-views, 9.0

The regression model shown above with one independent variables (IV), one moderating variable (MV) and one control variable (CVs), as follows: audit fee, audit committee gender diversity and firm leverage. In model validation, the following are considered: F-statistics and the overall R^2 are used. The overall R-squared is 0.474355 and the adjusted R-squared, 0.407649. The p-value of the F-statistics is (0.0000). That is, less than .05 which confirms the statistical significance of the model.

Auto-Correlation

The presence of auto-correlation is reflected in the Durbin-Waston statistics of our model. For a Durbin-Waston statistics to be accepted and free from auto-correlation, the value must lie between 1.5 and 2.0. Our Durbin-Waston showed a value of 1.7. Hence, we conclude that our model one is free from auto-correlation.

4.4.1 Hypothesis One

***H_{01}**: Audit fee has no significant effect on audit report timeliness of quoted non-bank financial firms in Nigeria.*

Specifically, audit fee (AUDFEE) is the variable of interest for hypothesis one. The *coefficient* of the variable of interest: AUDFEE was (-101.315) and *t-statistic* (-2.9176) negative but not statistically significant as P-value = 0.0039 (*p*-value <.05). Therefore, the null hypothesis is rejected and alternate accepted. We therefore conclude that audit fee has a significant effect on audit report timeliness of quoted non-bank financial firms in Nigeria.

4.4.2 Hypothesis Two

***H_{02}**: There is no significant moderating effect of audit committee diversity on the association between audit fees on audit report timeliness of quoted non-bank financial firms in Nigeria.*

The model also revealed result specifically, audit fee moderated by audit committee gender diversity (ACGD*(AUDFEE)) is the variable of interest for hypothesis two. The *coefficient* of the variable of interest: AUDFEE was (-0.034677) and *t-statistic* (-0.28361) negative but not statistically significant as P-value = 0.7770 (p-value > 0.05). Therefore, the null hypothesis is accepted. We therefore conclude that there is no significant moderating effect of audit committee diversity on the association between audit fees on audit report timeliness of quoted non-bank financial firms in Nigeria.

Discussion of findings

The study focused on the moderating effect of auditor's liberty on audit reporting timeliness. The study found that audit fee has a significant effect on audit report timeliness of quoted non-bank financial firms in Nigeria., This finding is are in line with Hoai, (2011) who examined the relationship between audit fees as a proxy for auditor independence and audit quality of firms in New Zealand and found negatively associated with audit quality and auditor's independence of the previous year impacts on the audit fee that is negotiated in the current year. In this study the quality of audit is measured by the report timeliness. Although, Coulton, Livne, Pettinicchio, and Taylor (2012) found a slightly different result where they examined the links between audit fees and measures of audit quality. Their results show that higher annual excess fees and abnormal audit fees are generally associated with lower audit quality while a multi-period measure that reflects consistently high audit fees is associated with a positive long-run relationship between audit quality and audit fees. The difference could have been caused by the dissimilarities in regulatory environment. The current study therefore summarizes that audit liberty as measured by audit fee has a significant effect on audit reporting timeliness. Whereas, there is no significant moderating effect of audit committee diversity on the association between audit fees on audit report timeliness of quoted non-bank financial firms in Nigeria.

5. CONCLUSION AND RECOMMENDATION

The paper focuses on audit liberty and audit reporting timeliness from a Random effect regression approach. The study saw audit liberty from various empirical point of view and concludes that Auditor's liberty plays a role in touching accountability and reporting timeliness of financial firms in Nigeria. The study thus makes the following recommendations:

1. **Engaging Audit Firms with better exposure:** It is worthy of note that large firm (Big 4) most times attract higher fee and have more access to resources to produce a quality audit while smaller firms face pressures within their working environment due to minimum client exposure. Hence, it is recommended that companies engage Audit firms with better exposure who will put due diligence and professional ethics above any pressure resulting from high or low fee.
2. **Optimization of Audit fee:** In line with findings, it is recommended that firms should budget an optimal amount for audit fees to ensure they do not spend more than necessary yet not compromising audit quality and reporting timeliness. Further studies can be undertaken on other specific factors that affect audit report lag in manufacturing companies and the oil and gas sector.

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