



EFFECT OF AUDITORS' INDEPENDENCE ON REPORTING LAG: EVIDENCE FROM SELECTED FIRMS IN NIGERIA

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ABSTRACT

This study investigated the effect of auditors' independence on reporting lag of financial firms in Nigeria from (2011-to 2020). Five research questions and five hypotheses were formulated for the study. The ex-post facto research design was employed in the study. Used for the study is the population of all financial firms quoted and trading on the Nigerian Exchange Group (NXG) (NSE) as of 31st December 2021 with a sample size of Thirty-five (35) financial firms selected from the financial sector. Reliance was placed on secondary sources of data which were obtained from Annual reports of sampled firms as provided by individual firms and the Nigerian Exchange Group (NXG) website. Panel Estimated Generalized Least Square (EGLS) regression analysis was employed for validating the hypotheses. The study revealed a significant negative effect of audit fees on audit reporting lag. Audit switching, audit tenure, joint auditors and Big-4 auditors were not significant. The study suggests, among other things, that firms budget an appropriate amount for audit fees to guarantee that they do not spend more than is necessary while still improving audit quality and reporting timeliness. Other specific issues that affect audit report lag in industrial organisations and the oil and gas sector might be researched further.

Keywords: Audit independence; auditor tenure; audit fee; auditor quality; audit report lag.

1. INTRODUCTION

“Corporate collapse witnessed in the country, more especially in the commercial banking segment of the economy had raised considerable measure of concern with a series of well-publicized incidences of unethical accounting issues in the sector, for instance, the case of Oceanic Bank, Intercontinental Bank, Wema Bank, Fin Bank, Spring Bank, and Diamond bank of late” [1]. Although the case of Diamond bank was tactically described as a merger, the sudden failures of these banks resulted in their demise and have captured the attention of investors, regulators and even researchers [2]. “Moreover, the global

financial crisis has highlighted the need for credible high quality and timely financial reporting, which can be relied upon” [3]. Management and external audits play a crucial role in achieving quality and timely financial reporting of financial statements [3]. “Though 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 problems, which require auditors to assure shareholders that management act in their best interest, while attesting

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to the truth and fairness of the financial statements” [4].

According to Ojo [4], “the involvement of external auditors could contribute to corporate governance and address the inherent agency problem because the auditor can facilitate a situation where managers are encouraged or compelled to be held accountable”. Porter, Simon and Hatherly [5] describe an “external audit as an examination of an entity’s financial statements to provide evidence supporting the information contained in those statements”. A proposal by Aren, Elder, Randal, Beasley and Mark [6] is that “the value of auditing or financial statement examination depends heavily on the public’s perception of the independence of auditors. Sadly, Audit quality nowadays has become a major concern locally and internationally as most auditors are perceived not to be independent in discharging their duties” [6]. Clients appear to be deciding for the auditor the audit scope, approach and opinion which largely influences the auditor’s Fee, switching tenure and quality leading to massive corporate failures [7]. On this basis, a first-rate 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 [3]. Thus, the declining perception of audit quality, as well as audit delay hence, created the impetus aimed at this study.

“Several studies in industrialized nations have given empirical evidence that audit report lag is the most influential factor in the audit of financial statements” [8]. A vast number of studies on audit report lag have been conducted in both developed and developing countries [8]. Though, most studies conducted in Nigeria earlier focused only on Insurance firms Ovbiebo, [9]; others focused on manufacturing firms considering industrial goods and consumer goods manufacturing firms quoted in Nigeria – These studies found mixed results regarding audit independence and audit report lag [10] (Appah, & Tebepah, 2020). From the prior studies, it is obvious that researchers have not properly established a clear-cut direction of the relationship between audit independence and audit report lag of 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 switching, fees, tenure and quality on the audit report lag were not previously extensively explored in the financial firms in Nigeria [11,12]. There is, therefore, a need to sample purely financial firms with particular emphasis on the ones quoted on the floor of the Nigerian exchange group.

Moreover, from previous records, literature examined audit independence and audit report lag while considering only two to six years to explain the effect giving no clear reason and practical explanation. However, using a longer period of ten years and extending the study scope by investigating financial companies could provide a more in-depth interpretation that could lead to more reliable results. It is, therefore, necessary to extend the scope to the previous works that had alluded to the value of audit independence with five critical indicators which include audit switching, audit tenure etc. and further theorize and test how the audit independence plays a role in sustaining auditors’ report timeliness in financial firms of an emerging economy [13-15]. The current study thus seeks to investigate the effect of audit independence (audit switching, joint auditors, Big-4 auditors, audit fee and audit tenure) on audit report lag of quoted financial firms in Nigeria to fill this gap thereby contributing to the body of knowledge.

The entirety of this paper is subdivided into five sections. The first section covers the introduction, the second section, covers the review of related literature to explore the theoretical constructs and hypothesis development while the 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 implications were drawn.

2. THEORETICAL CONSTRUCT AND HYPOTHESES DEVELOPMENT

2.1 Audit Switching and Audit Report Lag

Auditor switching is referred to as a voluntary or mandatory change of audit clients by an external auditor [16]. “Auditor switching can happen because of the regulation that is issued and made available by the government or the impact of audit report lag on the financial market”. Nehme, Assaker, and Khalife [17] defined “audit report lag as the time between a company’s fiscal year-end and the audit report date”. “Audit delay is related to the financial reports that are audited by the auditors. The number of days of audit delay is influenced by the difficulty encountered during the audit process” [18]. According to Azubike and Aggrey [19], “as the audited financial statements in the annual report are the only source of information that is reliable to investors, the timeliness of the audit report is important for the reliability of the capital market”. When an audit is delayed and exceeds the due time, it creates an unsavoury impression among the public that the company is in a bad state which can impact the image of the company on the Stock

Exchange. Though, the length of audit delay is influenced by the complexity of the audit process. Stocken (2002) stated that “long-range audit task completion may result in delays in the publication of the financial statements to the capital market with the outcome being affected by the auditor switching”. It is supported by the result of previous studies done by Pawitri and Yadnyana [18] that “audit delay has a significant effect on auditor switching, they further postulated that if the publication of financial statements is postponed then the capital markets will be suspicious and give a negative evaluation of companies, speculating that they are running into problems. Audit delay can impact stock price and also public and investor’s view”. Therefore, the first hypothesis is:

H₀₁: There is no significant effect of audit switching on audit report lag of quoted financial firms in Nigeria.

2.2 Joint Auditors and Audit Report Lag

PwC [20] defined “a joint audit as a method where two independent audit firms work together to issue one audit opinion to a firm”. According to Ajaegbu [21], “it is an audit of a firm or corporate business by two or more auditors to produce a single audit report, thereby sharing responsibility for the audit”. “It is believed that joint audits would increase the probability of detecting errors, boost audit quality and reduce audit delay” [22]. “It is also believed that joint audits would enhance auditor independence as it would be difficult for the client to jointly develop economic bonding with two different audit firms” [23]. Others like Okaro, Okafor and Ofoegbu [24] postulated that “this would reduce the market concentration of audits by strengthening the non-Big4 market position of audit firms as well as mitigating prejudices that affect them”. The study, therefore, formed hypothesis two as thus:

H₀₂: There is no significant effect of joint auditors on audit report lag of quoted financial firms in Nigeria.

2.3 Big-4 Auditors and Audit Report Lag

The big-4 audit firm is just a coded name for audit quality. Definition of audit quality, largely accepted by scholars is the one by DeAngelo [25] cited in Zayol, Kukeng and Iortule [26] which states: “The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both discover a breach in the client’s accounting system and report the breach. This definition broadly means that audit quality depends on the probability that the auditor discovers a misstatement in a financial

statement and reports the misstatement”. Zayol, Kukeng and Iortule [26] added that “the probability of discovering such a breach depends on aspects such as the technological capabilities of the auditor and the employed procedures of the specific audit”.

“High-quality auditors with a substantial reputation for detecting and reporting irregularities have great incentives and several number of staff on-site to reduce the likelihood of audit failure and delay to retain their reputation” [27]. According to Aktaş and Kargin [28], the audit reporting lag is known as corporate reporting timeliness as an expression of the auditors’ capacity to deliver on time. This is however buried in the number and quality of men on the job. Hence the study formulates the third hypothesis as thus:

H₀₃: There is no significant effect of Big4 auditors on the audit report lag of quoted financial firms in Nigeria.

2.4 Audit Fees and Audit report Lag

Habib, Bhuiyan, Huang and Miah [29] postulated that “clients may be willing to pay higher fees for quicker completion of audit procedures”. This also conforms to Rubin [30] who stated that “clients will prefer to cater for additional staff, overtime and more concentrated audit resources resulting in a shorter period in which the audit report will be ready”. Leventis, Weetman and Caramanis [31] found that “payment of a high audit fee can reduce the audit report lag of listed firms on the Athens Stock Exchange”. On the contrary, Abbaszadeh (2017) reported “a negative and significant relationship between audit fees and delays in audit reports. Some of these studies reported a negative association between audit fees and audit report lag while other studies suggested a positive association between audit fees and audit report lag”. Lobo and Zhao [32] attributed “higher audit fees to extra and more detailed audit efforts needed which will tend to cause the audit process to drag, hence a longer audit report lag”. Defond & Zhang [33] 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:

H₀₄: Audit fee has no significant effect on audit report lag of quoted financial firms in Nigeria.

2.5 Audit Tenure and Audit Report Lag

“Audit tenure is described as the auditor’s total duration to hold their client or the number of consecutive years that the audit firm (auditor) has

audited the client” [34]. “Auditor tenure could be seen from two perspectives: the tenure of individuals engaged in the audit, particularly the engagement partner, and the tenure of the audit firm. Empirical evidence regarding the effect of auditor tenure on audit delay supports both arguments, with studies finding that audit delay both increases and decreases as audit firm tenure increases” (Ghosh & Moon, 2005). “Some studies on audit partner tenure find a positive association between audit partner tenure and audit delay measured” [35]. “Hence, the imposed mandatory partner rotation, which limits auditor partner tenure, can result in decreased audit quality or increased audit delay. On the other hand, other studies find a negative association between audit quality and long audit partner tenure” [35]. Hence, the effects of audit partner rotation on audit quality are still inconclusive. Babatolu, Aigienohuwa and Uniamikogbo [36] also found that “there exists a negative relationship between audit firm tenure and audit report delay as the correlation between audit delay and leverage was strong, negative and statistically significant. The correlation between audit delay and company size was also strong, positive and statistically significant”. The current study, therefore, formulates hypothesis five as thus:

H₀₅: *There is no significant effect of audit tenure on audit report lag of quoted financial firms in Nigeria.*

The conceptual diagram shows the breakdown of the independent variable (Audit independence) into Audit switching, Joint audit, Big-4 Audit firms, Audit fees, and Audit tenure. The arrows also indicated the relationship between the independent and dependent variables where IV represents the independent variable and DV represents the dependent variables.

2.6 Theoretical Framework

The current study is anchored on the stakeholder’s theory. The justification for this theory is that it

mirrors the situation where a principal (owner) contracts an agent (manager) to act on his/her behalf. As Jensen et al. [37] explain, contracting involves delegating decision-making authority to the agent.

2.6.1 Agency theory

“Agency theory maintains that managers will not act in the best interest of shareholders by maximizing their return unless appropriate governance structures are implemented by very big corporations to protect the interest of shareholders” [37]. In their view, Agency theory assumes that each party is acting in their interests, Principals see the excellent performance of the agents (managers) if the agent can maximize earnings as indicated in dividend distribution so that the higher the earnings and share price, the better the performance of the agent thus the agent gets a high incentive. The Agency theory focuses on the ethical management of firms in operation and in producing what is true and fair in curtailing the opportunistic attitude of managers [38]. Ratna and Bambang [39] opined that principals after identifying the capabilities and expertise of agents, give them authority to run their companies. Similarly, Agyemang-Mintah and Schadewitz [40], 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 divergence of interest between the principal and the agent; in the case of the latter, the agent (manager) may choose to focus on their objectives rather than the primary objectives of wealth maximization for shareholders. A free flow of information between the company’s internal and external agents minimizes information asymmetries and reduces agency costs by monitoring the audit process. In this sense, management’s duty is to create an environment in which external auditors can quickly verify management information.

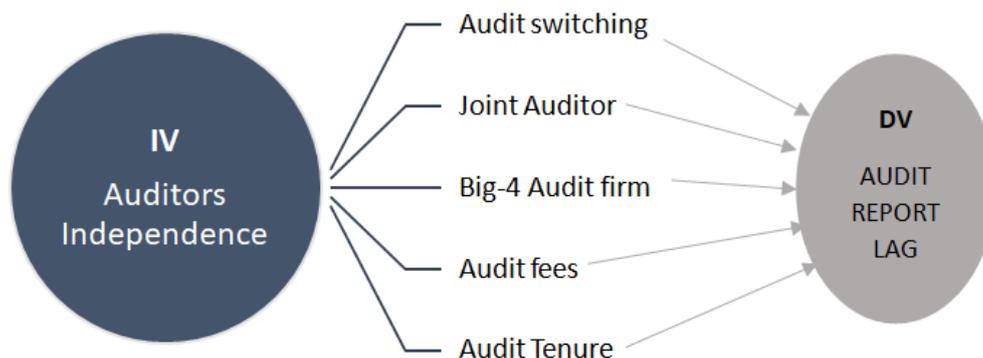


Fig. 1. Schematic representation of the conceptual framework

Source: Authors’ conceptualization, 2022

3. METHODOLOGY

Ex post facto research design was used to describe the effect of audit independence on audit report lag of thirty-five 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 statements of the quoted firms. The financial firms used are shown below.

Chart 1. Sample size of the study

SN	Companies	Sector	Primary Business	Audit Firm
1	Abbey Mortgage Bank	Finance	Mortgage Bank	E&Y
2	Access Bank	Finance	Bank	KPMG
3	African Alliance Insurance	Finance	Life & Health Insurance	Deloitte
4	AIICO	Finance	Multiline Insurance	SIAO
5	AxaMansard	Finance	Property & Casualty Insurance	KPMG
6	Consolidated Hallmark	Finance	Property & Casualty Insurance	Pkf
7	Cornerstone Insurance	Finance	Multiline Insurance	KPMG
8	Custodian & Allied Insurance	Finance	Property & Casualty Insurance	Deloitte
9	Fidelity Bank	Finance	Bank	E&Y+Pkf
10	First Bank Holding	Finance	Bank	Pwc + Pkf
11	First City Monumental Bank	Finance	Bank	KPMG
12	Guaranty Trust Bank	Finance	Bank	Pwc
13	Guinea Insurance	Finance	Property & Casualty Insurance	E&Y
14	International Energy Insurance	Finance	Property & Casualty Insurance	Horwath Dafinone
15	Lasasco Assurance	Finance	Multiline Insurance	Abayomi Dosunmu
16	Linkage Assurance	Finance	Property & Casualty Insurance	Pwc
17	Mutual Benefit Assurance	Finance	Life & Health Insurance	Bdo
18	Nem Insurance	Finance	Property & Casualty Insurance	SIAO
19	Niger Insurance	Finance	Multiline Insurance	Baker Tilly
20	Prestige Assurance	Finance	Property & Casualty Insurance	Bdo
21	Regency Alliance Ins	Finance	Property & Casualty Insurance	A.A.Dina
22	Royal Exchange	Finance	Property & Casualty Insurance	Deloitte
23	Sovereign Trust	Finance	Property & Casualty Insurance	SIAO
24	Stanbic Ibtc Holding	Finance	Bank	KPMG
25	Standard Alliance Insurance	Finance	Property & Casualty Insurance	Muhtari Dangana
26	Sterling Bank	Finance	Bank	E&Y
27	Sunu Assurance	Finance	Property & Casualty Insurance	Balogun Badejo
28	Union Bank Of Nig	Finance	Bank	KPMG
29	United Bank For Africa	Finance	Bank	Pwc
30	Unity Bank	Finance	Bank	Ahmed Zakari
31	Universal Insurance	Finance	Multiline Insurance	Anuebunwa Jude
32	Veritas Kapital Assurance	Finance	Property & Casualty Insurance	Aminu Ibrahim
33	Wapic Insurance	Finance	Property & Casualty Insurance	KPMG
34	Wema Bank	Finance	Bank	KPMG
35	Zenith Bank	Finance	Bank	KPMG

Source: Authors, compilation, 2022

Only thirty-five (35) firms were used based on complete data available as of 31st December 2020. Audit report lag 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, this was measured in the number of days. Audit independence was taken as the independent variable operationalized using audit switching, joint auditors, Big-4 audit firms, audit fees, and audit tenure as proxy.

The study also carried out some preliminary data tests like descriptive statistics and variance inflation factor (VIF) analysis with the aid of SPSS, 23 and E-views, 9.0 while panel least square regression was used to test the formulated hypotheses. To determine the nature of the data, descriptive statistics were employed to study it. The variance inflation factor (VIF) was used to test for the presence of multi-collinearity in the situation of perfect correlation across variables. Finally, the study performed ordinary least square regression analysis to determine the functional causal influence between the regressors, taking into account fixed or random effect testing for regression result interpretation. 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:

$$ARL_{it} = \beta_0 + \beta_1 ASW_{it} + \beta_2 JAUD_{it} + \beta_3 B4AUD_{it} + \beta_4 AUDFEE_{it} + \beta_5 AUDTEN_{it} + \epsilon_i \quad [1]$$

Where,

- ARL = Audit Report Lag
- ASW = Audit Switching
- JAUD = Joint Audit

- B4AUD = Big-4 Auditors
- AUDFEE = Audit Fee
- AUDTEN = Audit Tenure

4. RESULTS AND DISCUSSION OF FINDINGS

4.1 Descriptive Statistics

The descriptive statistics displays the general distributional properties of the data, to identify any unusual observation/pattern that may lead to spurious results during estimation. As a result, to define and summarise the data gathered for the study, a first analysis of the data was conducted using simple descriptive techniques. The descriptive statistics of the selected financial firms in Nigeria that make up the study's sample are shown in the Table 1.

The descriptive statistics result shows the mean values for each variable, 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 central tendency and distribution of audit independence and audit report lag among the selected financial firms in Nigeria were established through the tests. Audit report lag is the dependent variable which is 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 130days (4 months and 10 days) with a standard deviation of 96.84. While the minimum and maximum values are 9 days and 591 days respectively. This implies that most of the financial firms in Nigeria experience audit delays for more than 3 months after the fiscal year-end.

Table 1. Descriptive statistics

	ARL	ASW	JAUD	BIG4AUD	AUDFEE	AUTEN
Mean	130.2400	0.157143	0.037143	0.625714	4.609557	0.648571
Median	89.00000	0.000000	0.000000	1.000000	4.388600	1.000000
Maximum	591.0000	1.000000	1.000000	1.000000	6.071800	1.000000
Minimum	9.000000	0.000000	0.000000	0.000000	3.322200	0.000000
Std. Dev.	96.83797	0.364456	0.189383	0.484631	0.666574	0.478100
Skewness	2.053420	1.884165	4.895064	-0.519547	0.522713	-0.622398
Kurtosis	7.323768	4.550077	24.96165	1.269929	2.003783	1.387379
Jarque-Bera	518.5994	242.1278	8431.512	59.39590	30.41157	60.52174
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	45584.00	55.00000	13.00000	219.0000	1613.345	227.0000
Sum Sq. Dev.	3272780.	46.35714	12.51714	81.96857	155.0679	79.77429
Observations	350	350	350	350	350	350

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

It was also observed that audit independence represented by audit switching, joint auditors, Big4 auditors, audit fees, and audit tenures showed an average value of 0.157143, 0.037143, 0.625714, 4.609557, and 0.648571 respectively. With standard deviation of 0.364, 0.189, 0.485, 0.667, 0.478. Normal data sets are data with skewness between -2 to +2 and kurtosis between -7 to +7 (Bryne, 2010). The descriptive statistics revealed a skewness and kurtosis between (-2 to +2; -7 to +7) for audit report lag, audit switching, audit fee, audit tenure, and Big-4 auditors. Based on this, these data for the study are considered normal. Only joint auditors 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 generalizations.

4.2 Variance Inflation Factors

Multicollinearity was tested by computing the Variance Inflation Factor (VIF) and its reciprocal or the tolerance. Collinearity diagnostics determine how closely regressors are connected to one another and how this influences the regression estimates' stability and variation. We utilised the Variance Inflation Factor (VIF) to check for multi-collinearity and to see if the independent variables were perfectly linked. The following Table 2 shows the outcome of the Variance Inflation Factor (VIF):

The variance inflation factor (VIF) test was employed to measure the severity of multicollinearity in our model, which calculates the variance factors of each variable. The presence of multicollinearity can only be established if the variance inflation factor is greater than ten, according to the test's standards. There is no intercorrelation between our independent variables, according to the VIF test and the Pairwise rank correlation. Table 2 revealed that all the variables had a variance inflation factor (VIF) of less than 10: audit switching (1.462), joint auditors (1.162), Big-4 auditors (1.626), audit fee (1.648), and audit tenure (1.479). This means that there was no multicollinearity problem with the variables, thus all the variables were maintained in the regression model.

4.3 Hausman Test

The Hausman test result above shows a chi-square statistics value of 0.0000 and a probability value of 1.0000 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 while the random effect is accepted and considered for interpretation of the regression.

Table 2. SPSS output: variance inflation factor (VIF)

Model		Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
		B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	399.107	38.386			
	ASW	-4.932	15.895	-.019	.684	1.462
	JAUD	15.248	27.270	.030	.861	1.162
	B4AUD	1.304	12.608	.007	.615	1.626
	AUDFEE	-55.272	9.229	-.380	.607	1.648
	AUDTEN	-22.660	12.190	-.112	.676	1.479

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

Table 3. Hausman test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section and period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000
Period random	0.000000	5	1.0000
Cross-section and period random	0.000000	5	1.0000

4.4 Test of Hypotheses and Discussion of Findings

Table 4. Regression analysis: panel estimated general least square analysis

Dependent Variable: AUDIT_REPORT_LAG Method: Panel EGLS (Two-way random effects) Total panel (balanced) observations: 350 Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	369.9392	67.72043	5.462742	0.0000
AUDITORS_SWITCHING	8.197202	12.47211	0.657243	0.5115
JOINT_AUDITOR	-22.02645	26.03023	-0.846188	0.3980
BIG4_AUDITOR	14.37970	14.38866	0.999377	0.3183
LOG_OF_AUDIT_FEE	-53.93968	15.28948	-3.527895	0.0005
AUDITOR_TENURE	-0.815300	9.717153	-0.083903	0.9332
Effects Specification				
			S.D.	Rho
Cross-section random			53.24735	0.3609
Period random			24.54050	0.0767
Idiosyncratic random			66.46980	0.5624
Weighted Statistics				
R-squared	0.044058	Mean dependent var		37.30600
Adjusted R-squared	0.030163	S.D. dependent var		68.09802
S.E. of regression	67.06312	Sum squared resid		1547127.
F-statistic	3.170893	Durbin-Watson stat		1.369104
Prob(F-statistic)	0.008195			
Unweighted Statistics				
R-squared	0.138964	Mean dependent var		130.2400
Sum squared resid	2817982.	Durbin-Watson stat		0.858325

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

4.5 Robustness Check

Table 5. Regression analysis: robust least square analysis

Dependent Variable: ARL Method: Robust Least Squares M settings: weight=Bisquare, tuning=4.685, scale=MAD (median centered) Huber Type I Standard Errors & Covariance				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	203.3585	17.30362	11.75236	0.0000
ASW	5.418302	7.165428	0.756173	0.4495
JAUD	13.29403	12.29281	1.081448	0.2795
BIG4_AUDITOR	5.337542	5.683431	0.939141	0.3477
LOG_OF_AUDIT_FEE	-24.74387	4.160123	-5.947868	0.0000
AUDTEN	3.668243	5.495076	0.667551	0.5044
Robust Statistics				
R-squared	0.057569	Adjusted R-squared		0.043871
Rw-squared	0.165071	Adjust Rw-squared		0.165071
Akaike info criterion	592.4134	Schwarz criterion		619.2033
Deviance	857940.8	Scale		38.32671
Rn-squared statistic	47.25653	Prob (Rn-squared stat.)		0.000000
Non-robust Statistics				
Mean dependent var	130.2400	S.D. dependent var		96.83797
S.E. of regression	99.08250	Sum squared resid		3377165.

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

The table above shows the Panel EGLS regression analysis of quoted financial firms in Nigeria. From the result above, the study observed that the R-squared value was 0.044 (4.4%) and the R-squared adjusted value was 0.030 (3.1%) approximately. This means that the independent factors together account for around 4.4 percent of the system variation in audit report lag among our sampled financial firms over the last ten years. Furthermore, the total audit independence model employed for the analysis was statistically significant at a 5% level, with an F-statistics value of 3.171 and a probability value of 0.000. This proves that the model we utilised for the analysis was appropriate. Also, from our Hausman test table, it can be observed that the Panel EGLS results had a heteroscedasticity problem (1.0000) that was significant and that was corrected using robust regression.

4.5.1 Hypothesis one

The study established that audit switching has no significant effect on audit report lag with a p-value of (0.5115). By implication, this means that a 1% increase in the proportion of audit switching will lead to an insignificant increase in auditor report lag. Our robust least square result also revealed a p-value of 0.4495 which is above the decision threshold to reject the null hypothesis. Hence, we accept the null hypothesis and conclude that there is no significant effect of audit switching on audit report lag of quoted financial firms in Nigeria.

4.5.2 Hypothesis two

Our estimated generalized least square regression also established that joint auditors have no significant effect on audit report lag with a p-value of (0.3980). This entails that a unit increase in the frequency of joint audit fees will lead to an insignificant increase in auditor report lag. Our robust least square result also revealed a p-value of 0.2795 which is above the decision threshold to reject the null hypothesis. Hence, we accept the null hypothesis and conclude that there is no significant effect of joint auditors on audit report lag of quoted financial firms in Nigeria.

4.5.3 Hypothesis three

The estimated generalized least square regression also revealed that Big-4 auditors have no significant effect on audit report lag with a p-value of (0.3183). Our robust least square result also revealed a p-value of 0.3477 which is above the decision threshold to reject the null hypothesis. Hence, we accept the null hypothesis and conclude that there is no significant effect of Big-4 auditors on audit report lag of quoted financial firms in Nigeria.

4.5.4 Hypothesis four

Our estimated generalized least square regression also established that audit fee which is represented by (log10 of audit fee) has a significant effect on audit report lag with a p-value of (0.0005) and a correlation coefficient of -3.528. The implication of this is that a unit increase in the amount of audit fees will lead to a significant decrease in auditor report lag. Our robust least square result also revealed a p-value of 0.0000 which is below the decision threshold to reject the null hypothesis. Hence, we reject the null hypothesis, accept the alternate hypothesis and conclude that there is a significant effect of audit fees on audit report lag of quoted financial firms in Nigeria.

4.5.5 Hypothesis five

Finally, the estimated generalized least square regression also established that auditors' tenure has no significant effect on audit report lag with a p-value of (0.9332). Our robust least square result also revealed a p-value of 0.5044 which is above the decision threshold to reject the null hypothesis. Hence, we accept the null hypothesis and conclude that there is no significant effect of auditors' tenure on audit report lag of quoted financial firms in Nigeria.

4.6 Discussion of Findings

The study focused on the effect of auditors' independence on audit report lag. The study found that audit fee is significant while audit switching, joint auditors, Big-4 auditors, and audit tenure were not significant. Although, Babatolu, Aigienohuwa, and Uniamikogbo [36] who finished "a barely comparable study found a slightly contrary result where it was revealed that there exists a negative relationship between audit firm tenure and audit quality as the correlation between audit quality and leverage was strong, negative and statistically significant. The correlation between audit quality and company size was strong, positive, and statistically significant. Although this difference could have been caused by the dissimilarities in independent variables of both studies". However, the findings of the study are in line with Hoai, [41] 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 the audit is measured by the reporting timeliness". Although, Coulton, Livne, Pettinicchio, and Taylor [42] found a slightly different result when 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” [43-46]. The current study, therefore, summarizes that audit independence as measured by audit fee has a significant effect on audit report lag. Whereas, there is no significant effect of audit switching, joint auditors, Big-4 auditors, and audit tenure on audit report lag.

The study was limited by its scope whereby only five proxies namely Audit Switching, Joint Audit, Big-4 Auditors, Audit fee and Audit Tenure, were used for Auditors’ independence against the dependent variable - Audit report lag. Due to availability of data, constraints in obtaining data for auditors’ independence were encountered hence the use of the already stated five (5) independent variables and one (1) dependent variable for this study. Also, the sample size is a limitation as this study is limited to thirty-five companies listed on the financial firms sector and for a period of ten years from 2011 to 2020 only. This was as a result of both time and data availability constraint in getting relevant data for all financial firms listed on the Nigerian Stock Exchange for the period under review or even for an elongated period. This was however, overcome by curtailing the scope thereby making it possible to obtain the relevant data for the empirical analysis. Consequently, the empirical results will, therefore, be limited to the particular proxies employed, the firms studied and the scope and methodology utilised. The results may therefore not be suitable to be generalized to fit all sectors on the Stock Exchange.

5. CONCLUSION AND RECOMMENDATION

The paper focuses on audit independence and audit report lag from a Panel Estimated Generalized Least Square approach. The study saw audit independence from various empirical points of view and concludes that Auditor’s independence plays a role in enhancing 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 audit firms (Big 4) most times attract higher fees and have more access to resources to produce a quality audit while smaller firms face pressures within their working environment due to minimizing 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 the high or low fees. Clients should also consider a joint audit with a small audit firm and a Big-4 audit firm to foster synergy and reduce audit report delays.

2. **Auditor tenure is sensitive and should be handled with due caution:** Auditors are expected to rotate clients every five years, yet some auditors stay with clients for longer periods. As a result, questions can arise as to the connection and closeness of their relationship and what effect it would have on the audit. Therefore, irrespective of the non-significant effect of auditor tenure on audit report lag, it is still recommended that audit rotation is maintained and within a reasonable period to prevent misguided worries from stakeholders and other users of the company’s financial information.
3. **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 compromise 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.

For future studies it is suggested that the scope should be increased with regards to the period and the inclusion of more firms from other sectors of the Nigerian Stock Exchange, West African Countries or even African countries for comparability. Additional or alternative independent and dependent variables could be introduced thereby specifying multiple models and subsequently testing cause and effect relationship between them.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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