

## **CORPORATE GOVERNANCE AND ACCOUNTING QUALITY: EMPIRICAL INVESTIGATIONS FROM NIGERIA**

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### **Abstract**

*Quality decision making is based on the quality of information available to investors and other stakeholders. Financial reports published by companies serve as the major means of financial information. The quality of these reports determines the types of decisions investors make. Various and alternate corporate governance variables have been evaluated in the literature. In this study, we incorporated the variables of enterprise risk management(ERMD) and corporate governance disclosure(CGDC) reports to enhance the robustness of the corporate governance model. By using secondary data from 150 companies in Nigeria, we sought to know the relationship between corporate governance variables and accounting quality, proxied by timeliness. The data were analyzed using the Ordinary Least Square (OLS) of multiple regressions along with the descriptive statistics to obtain the mean, standard deviation, minimum and maximum values. In our findings in 2006 through 2009, results were mixed, Nevertheless, it was suggested that an average of 9 members as the Board Size be encouraged, though the code of corporate governance code is silent on this. This is in addition to having reports on ERMD and CGDC in the annual reports for stakeholders' information, investment decision and review.*

**Keywords:** *Corporate governance, corporate governance variables, quality of accounting report , Nigeria*

### **Introduction**

Financial reporting is perceived no longer as a low priority book keeping exercise, but a central function for directing a company under good corporate governance principles. The issue of corporate governance has received great attention in recent times. Corporate governance issues took centre stage in the wake of the collapse of Enron and World-Com in the United States, with the subsequent enactment of the Sarbanes – Oxley Act in July 2002 (Okereke,2008). The

financial reporting restatements at Shell, Xerox, Ahold and many others. In Nigeria, some corporate failures and near failures have been adduced as being a fallout of non-observance of the Code of Corporate Governance in place. The saga in Cadbury Nig. Plc., the AP.Nig and some banks in Nigeria, is but some examples that have shaken not only the confidence in financial reporting, but also the financial system as a whole.

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

In literature, corporate governance variables have been linked to corporate performance (Okafor and Ibadin, 2011) these include the variables of board size, chief executive officer duality, audit committee independence, board composition, enterprise risk management disclosure and corporate governance disclosure report. The enterprise risk management disclosure and corporate governance disclosure are incorporated into the model to enhance the robustness of the corporate governance model. However, it is suggested that when accounting or financial reports are handy and timely, such information is said to be of high quality. But what role do the corporate governance variables play in improving accounting quality. The accounting quality, in the context of this paper, is defined in terms of timeliness, which in the view of Sloan (2002), depends largely on the existence of strong corporate governance structures. This definition of quality of financial reporting is consistent with accounting quality defined by McGee (1998) and Beest, Braan and Boelens (2009).

Given the preliminaries, this paper examines corporate governance and quality of financial reporting with the specific objectives:

- to determine the relationship between Audit Committee Independence (ACIN) and Accounting Quality.
- to evaluate the relationship between Board Composition (BODC) and Accounting Quality.
- to ascertain whether Board Size (BODS) affects Accounting Quality.
- to establish the relationship between Enterprise Risk Management Disclosure in the annual reports and accounts (ERMD) and Accounting Quality.
- to evaluate whether Corporate Governance Disclosure in the annual reports and accounts (CGDC) affect Accounting Quality.

### **Empirical Review of Literature and Hypotheses Formulation**

Corporate governance has had its own share of debate in management and social sciences. The intensity of corporate governance discourse has led to codes of governance in the United States,

the United Kingdom, Europe and Africa. Such developments in Corporate Governance codes are attempts to address corporate leadership failures in public organizations order to create value for the shareholders ultimately. In the U.S., the Sarbanes-Oxley Act of 2002 came in the wake of corporate collapses in the U.S..Earlier on, the Organization for Economic Cooperation(OECD)(1999) principles on corporate governance and subsequently revised in 2004, focused on rights and role of shareholders in corporate governance, equitable treatment of shareholders ,disclosure transparency, responsibilities of the Board, among others. The Cadbury Report (1992) sensitizes the public discourse on corporate governance mechanisms in the U.K.. Other codes that followed the streams in the U.K. include: Greenbury (1995) on executive remuneration; the Hampel (1998) which harps on the corporate governance recommendations in force in the U.K. The recommendations of the Turnbull (1999) mainly focus on the management of internal controls and risk. The Combined Code (1998) in the U.K. was revised and replaced by the Combined Code (2003) to take account of various corporate governance developments in the UK and globally. It has two main parts: one on companies and one on institutional shareholders.

The Kings III Corporate Governance of 2002 in South Africa and the Code of Corporate Governance of 2003 and the Code of Corporate Governance of 2011, in Nigeria are two referent points in Africa intended to bring about public confidence and accountability in the business of governance and in the financial reports. Nigeria's Code of Corporate Governance (CCG) (2003) was crafted to address the decay and failures in corporate and public governance in Nigeria. It is expected therefore that the right corporate governance should impact positively on the performance variables in an organization.

Interestingly, therefore, the various codes centre on directors, remuneration, accountability and audit, and relations with shareholders, responsibilities of management and board of directors and their relationships to public companies (King III, 2002; CCG, 2003; OECD, 2004). In relation to directors, the Combined Code (1998 and 2003) and the U.K Code of Corporate Governance(2010) state that there should be an effective board, which is collectively responsible for the success of the company and a clear division of responsibilities at the head of the company (separation of the roles of Chair and CEO).It is expected that a formal, rigorous and transparent procedure for the appointment of new directors to the board should help ensure that the most appropriate people are appointed as directors. It is also expected, as coded, that information should be provided to the board in a timely manner to enable it to make informed decisions, and all directors should regularly update their skills and knowledge. A formal and rigorous evaluation should be carried out annually of the board's performance and that of the committees and individual directors.

Nevertheless, in literature, a dual role tends to exist .This occurs when the CEO is also the chairman of the board of directors in a company against relevant codes of corporate governance (Cadbury (1992, King III,2002; CCG,2003 and OECD,2004).In a further bid to strengthen the corporate governance mechanisms in the U.K. ,the new code recommends that all directors be put for re-election every year and an express reference to gender diversity(U.K. Corporate

Governance Code ,2010 and Financial Reporting Council,2010).This is intended to ensure a balance of power and authority. Ow-Yong and Guan( 2000) had emphasized the need for fairness and equity towards more independent boards.

Over time, two points of views have emerged on the issue of the separation of powers between the chairman of the board and the CEO..These are based on the *agency theory and the stewardship theory* (Abdul-Rahman and Haniffa, 2005). Proponents of the *agency theory* believe that there should be separation of the two roles which is crucial for the monitoring of the effectiveness of the board over management; by providing cross checking evidence against the possibility of over-ambitious plans by the CEO. In contrast, proponents of the *stewardship theory* believe that the combination of the two roles enhance the decision making process and allow a CEO with strategic vision to guide the board to implement a company's objectives with the minimum of interference from the board.

But current empirical analyses yield mixed results of the impact of role duality on financial reporting quality. Cannella and Lubatkin's (1993) finding shows that there is a positive relationship between the CEO duality and the quality of financial reporting (Timeliness). Several researchers argue that CEO-Chairman duality is detrimental to companies as the same person will be marking his "own examination papers"; but argue in support against fusion of offices, that separation of duties will lead to: avoidance of CEO entrenchment, increase of board monitoring effectiveness, availability of board chairman to advise the CEO and establishment of independence between board of directors and corporate management (Baysinger and Hoskisson, 1990; Fama and Jensen, 1983).

On the other hand, other researchers believe that since the CEO and chairman are the same , the company will: achieve strong, unambiguous leadership, achieve internal efficiencies through unity of command, eliminate potentials for conflict between CEO and board chair and avoid confusion of having two public spokespersons addressing firm stakeholders (Davis, Schoorman and Donaldson, 1997; Donaldson and Davis, 1991).Against the back drop of this view, it is opine that two separate and distinct individuals are a precursor to good corporate and public governance. While it is submitted that the role of the board chair is to monitor the CEO (Jensen, 1983), it is also argued that that CEOs who also hold the position of board chair (duality) exerts undue influence on the board, compromising the strength of the board's governance. Rechner and Dalton (1991) examine the relationship between the dual roles of the CEO... Result indicates that companies which have CEOs performing dual role do have lower quality financial reports and longer time for publishing financial reports. Donaldson and Davis (1991) also examine the effect of the dual role of the CEO on reporting quality financial reports, and their result was a direct contrast of Rechner and Dalton (1991). Boyd (1995) argues that the duality role of the CEO can have positive effect on the accounting quality under certain industry conditions (for example, resource scarcity), but have a negative effect under other conditions. Beasley (1996:461) suggests that "when the level of ownership of firms by non-executive directors increases, the likelihood of fraud in financial reporting decreases".

With the separation between the position of the CEO and the chairman, it is expected that essential checks and balances over the management's performance would be in place, hence the hypothesis proposed is:

*H<sub>1</sub>: There is a significant relationship between CEO Duality and Accounting Quality.*

Accounting quality in terms of quality in financial reporting offers guidance for all areas of financial reporting, not just the contents of reports. It sheds new light on the importance of auditors' independence. Specifically, auditing financial reports add credibility to management's reports and reduce uncertainty, risk and the cost of capital. Quality financial reporting shows managers that they can create value by voluntarily increasing auditors' independence.

The Blue Ribbon Committee (1999) recommendations propose that audit committee publicly express their beliefs that financial reports are fair and conform to the Generally Accepted Accounting Principles (GAAP) in all material respects. Audit committee depends on a company's management and outside auditor for a full range of information, based on both facts and judgment, on the financial reporting process. Poor quality financial reporting, can result from the failure of an audit committee to question management selection of accounting methods and they are not equipped to guarantee the accuracy and quality of a company's financial reports and accounting practices.

On account of this introduction, the audit committee as a sub-committee of the board of directors has oversight responsibility for the financial reporting process. The audit committee is expected to provide a formal communication between the board, the internal monitoring system, and the external auditor. Dye (1988) affirms that the audit committee's oversight responsibility for the firm's financial reporting process and its primary purpose is to enhance the credibility of audited financial statements. Wolnizer (1995) used an *a priori* argument approach to evaluate whether Audit Committee Independence can significantly improve the financial reporting quality. He argues that it is unlikely, because current accounting practices allow wide discretion by management in the choice of accounting methods and estimates.

Section 359 of the Companies and Allied Matters Act (CAMA), (2004) requires companies to set up audit committee made up of maximum number of six members (equal number of directors and representatives of shareholders) with the oversight function for the firm's financial reporting process and ensuring the quality of audited financial reports. In this capacity, the audit committee acts as an intermediary between management and auditors. To this end, audit committee composition should reflect a balance that sufficiently allows them liberty to carry out the functions provided by Sec359 of CAMA (2004). Members should be more of non-executive, having the chairman as a non-executive; members should be numerate, able to read and professionally-situated, understand the basic financial statements, possess the quality of integrity, honesty, business and risks

Given the unique position of the audit committee, it is expected that Audit Committee Independence would improve accounting quality in terms of early publication of financial reports. We therefore propose that:

*H<sub>2</sub>: There is a significant relationship between Audit Committee Independence and Accounting Quality*

Risks associated with a company are no longer to be feared or avoided completely but they are to be managed and seen as a critical element in strategizing. Donwa and Ibadin (2010) are of the opinion that companies that think in a 'risk way' be prepared to strategically manage risks to optimize share value. Labarge (2003) argues that risk in itself is not bad. But what is bad is risk unmanaged, misunderstood, mispriced or simply unintended (KPMG, 2001). Kloman (2000) submits that the emphasis in today's investment world is what risks we are taken, and not how much risk is taken. In the past, risks-facing businesses were quantifiable risks that lend themselves to easy identification, quantification and assessment. Against this background, IFAC (1999) articulates and supports an integrated Enterprise Risk Management (ERM). This aligns with the realization of the full spectrum of risk and the development of integrated ERM frameworks to help pursue business objectives with confidence.

On his part, Labarge (2003) argues that ERM emerged as an important business trend to align strategy, process, people, technology and knowledge, with the purpose of evaluating and managing the uncertainties faced by the company in order to create value. In the context of an enterprise's risk appetite (a company's tolerance for risk); ERM is a move towards the optimization of risk, as against the traditional approach of mitigating risk by using controls to limit exposure to problem. Furthermore, Pagach and Warr (2008) postulates that ERM is a holistic method of managing both operational and strategic risk across an organization. In addition, ERM provides a process by which a company integrates all its risk management functions (Pagach and Warr, 2007). Therefore, the proper management of risk in an organization is critical to ensuring that companies achieve their vital objectives in maximizing shareholders value. Enterprise risk management goes beyond mere risk mitigation and compliance; it requires a deep appreciation of upside risks, as well. Building a solid ERM infrastructure is a tall ordering call for leaders and managers skilled in understanding, synthesizing and presenting information across the organization. Such presentation to stakeholders and potential stakeholders affect their portfolios.

To this end, the following proposed hypothesis is in order:

*H<sub>3</sub>: There is a significant relationship between Enterprise Risk Management and Accounting Quality.*

Corporate governance report disclosure is expected to accommodate all material effects relating to the company and reflect the corporate governance mechanisms in place; it is expected that the report be clear, concise, and precise and governed by the "substance over form principle". Recent trends in the corporate world envisage that new requirements encapsulated in the various codes harp on transparency and accountability in order to comply with best practices and regulations. Such best practices include: narrative reporting, balance in the structure of reports,



inclusion of management reports, reporting corporate governance and social responsibility, balancing financial and non-financial information and comparability overtime. Corporate governance report disclosure of information, however, helps investors or shareholders evaluate management's performance by observing how efficiently the management is utilizing the company's resources in the interest of the shareholders.

To this end, the location of corporate disclosure within the annual reports of a company is generally well defined and can vary substantially, however, across country in practice. According to FASB (2001), the quality of financial and non-financial disclosure depends significantly on the robustness of the reporting standards which form the basis of the financial and non-financial information. Disclosure of corporate governance report in annual reports and accounts clearly gives a direction and nature of corporate governance issues and direction and has more tendencies to influence the quality of financial reporting than when such direction is not disclosed. Given the preceding assertion, it is proposed that:

*H<sub>4</sub>: There is a significant relationship between Corporate Governance Disclosure Report and Accounting Quality.*

Boards of directors, which consist of top level executives of firms and non-executive outside members, are institutions that carry out the role of ratifying and monitoring the managerial decisions with the help of their non-executive outside members. Therefore, apart from the mix of executive and non-executive directors, the appropriate size is a precursor and critical factor in financial reporting quality. The board size consists of the total number of directors on the board. This categorization is considered to be a crucial characteristic of the board structure (Hermalin and Weisbach, 1991). Large boards could provide the diversity that would help companies to secure critical resources and reduce environmental uncertainties (Goodstein *et al.*, 1994); and therefore impinge on quality of financial reporting (Dehaene, DeVuyst and Ooghe, 2001), propensity and desire to present financial reports and quicker resolution and improvement of agency problems (Fama and Jensen, 1983) However, large-sized boards can result in difficulty in effective communication among members. This can jeopardize corporate interest where exigencies are sacrificed at the altar of 'incommunicado'. Despite the debate of what constitute the appropriate board size, CCG (2003) pegs a maximum board size at fifteen (15). However, the New Code of Corporate Governance does not give a board size figure; but rather canvases for any board size that meets the peculiarities of the company Based on this review, and we propose that:

*H<sub>5</sub>: There is a significant relationship between Board Size and Accounting Quality.*

### **Methodology and Data**

This study used a longitudinal survey based on data relating to 2006 to 2009; and it relates to companies quoted on the Nigerian Stock Exchange as at 31<sup>st</sup> December 2009. The population under study relates to all companies quoted on the Nigerian Stock Exchange as at 31<sup>st</sup> December, 2009 which is 283 (Nigerian Stock Exchange Report, 2009). But 150 companies quoted on the Nigerian Stock Exchange were selected as the sample size from the six geo-political zones in Nigeria. The

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sample size consists of 150 companies selected from the total population in order to give each member of the population equal chance of being included in the sample. Three (3) sampling methods were used. These include; stratified sampling method, Judgmental sampling method and the Simple Random sampling method. The Stratified Random Sampling was intended to homogenize the sectors that were quoted on the Nigerian Stock Exchange, and against the backdrop that the sectors were not evenly distributed in terms of the number of companies.

The sectors eventually selected were done through the judgmental sampling method. The use of the judgmental sampling method is justified by ensuring that a number of companies are chosen since all the sectors do not have the same number of companies. In this study, 19 Sectors were chosen out of 36 sectors (Nigerian Stock Exchange Report, 2009). The sectors chosen include; Conglomerates, Food and Beverages, Agric/Agro Allied, Publishing, Aviation, Mortgages, Construction, Telecom, Automobile/Tyre, Packaging, Health, Hotel/Tourism, Oil/Gas, Banking, Chemical/Paint, Commercial services, Industrial/ Building materials, Industrial/Domestic Sectors and the Insurance sector. In addition, the Simple random sampling method was applied on all the companies eventually arrived at. This was done by cutting equal sized papers and writing the names of all the companies in them and placing them in a basket rotated with a blind folder, picking each paper. In all, 150 companies were selected. Secondary data were used in this analysis were used for the purpose of extracting the relevant variables (including the dependent and the independent variables) for the research work. The library section of the Nigerian Stock Exchange (NSE), Benin Automated trading floor, served as the source for the annual reports of the companies selected for the study. The annual reports and account were used mainly to collect data that enabled us identify the relationships between corporate governance variables and accounting quality proxied by timeliness (McGee, 1998).

To this end, the ordinary least square (OLS) method was used to estimate the parameters the model, while the descriptive statistics were used to derive the mean, standard deviation, minimum and the maximum values. The analysis covers 150 companies from 2006 to 2009.

### ***Model Specification***

This study used a linear multiple regression analysis to test the association between the dependent variable of Accounting Quality defined as Timeliness (TIME) and the independent variables of Chief Executive Officer Duality (CEOD), Audit Committee Independence (ACIN), Enterprise Risk Management Disclosure (ERMD), Corporate Governance Disclosure (CGDC) and Board Size (BODS).

$$TIME = \beta_0 + \beta_1 CEOD + \beta_2 ACIN + \beta_3 ERMD + \beta_4 CGDC + \beta_5 BODS + U_t$$

Where  $\beta_0, \beta_1, \dots, \beta_5$  are the parameters to be estimated and CEOD, ACIN, ERMD, CGDC BODS are the independent variables and  $U_t$  the error term

### **Definition and Description of Variables**

The following variables are defined and described below;

**Chief executive duality (CEOD):** Under CEOD, the CEO of a company plays the dual role of chairman of the board of directors. Duality refers to a situation in which a corporate chief



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executive officer (CEO) also occupies the position of board chairman. This definition is consistent with the views and description of Cannella and Lubatkin (1993) and Davis, Schoorman and Donaldson (1997) and Donaldson and Davis (1991). For dual role, a dummy variable of '1' is ascribed otherwise '0'

***Audit committee independence (ACIN):*** This consists of the total number of non-executive director members on the committee. This is consistent with Dye (1988). This is event-specific and derived from the annual reports and accounts for the relevant years.

***Enterprise risk management disclosure (ERMD):*** Enterprise risk management integrates and manages operational, strategic risk and risk management functions company-wide to achieve organizational goals (Committee of Sponsoring Organizations (CSO) (2004); Pagach and Warr, 2007 and 2008). It is ascribed a dummy variable of '1' when disclosed otherwise '0', consistent with Donwa and Ibadin (2010).

***Corporate governance disclosure (CGDC):*** This relates to the disclosure of all *material issues* relating to corporate governance of a company. When the report is disclosed it is given a value of 1 otherwise it is 0, consistent with Donwa and Ibadin (2010).

**Board size (BODS):** This consists of the total number of directors on the board and should consist of an appropriate mix that could provide the diversity that would help companies to secure critical resources and reduce environmental uncertainties (Pearce and Zahra, 1992 and Goodstein *et al.*, 1994). This categorization is a crucial characteristic of the board structure (Hermalin and Weisbach, 1991) and consistent with the description of Dehaene *et al.*, (2001)

***Accounting quality (TIME):*** Accounting quality has been defined severally. However, it has been defined in terms of 'timeliness' (McGee, 1998). Timeliness has long been recognized as a qualitative characteristic of financial reporting (American Accounting Association (AAA), 1954 and 1957); and it has the capacity to influence decisions. Timeliness of financial reporting as defined by McGee (1998) is the time it takes to reveal the accounting information to members of the public. In similar vein, it is measured, using the natural logarithm of the amount of days between year end and the signature on the auditors' report after year end (Beest, Braam and Boelens, 2009). In this paper, Accounting Quality, Quality of Financial Reporting and Timeliness are used interchangeably. It is expected therefore that the shorter the time, the more the accounting quality; vice versa.

### **Data Analysis and Results**

The analysis of data for the years, 2006 to 2009 are shown to reflect the behavior and direction of relationships. The table 1 below indicates the relationships among the various variables

**Table 1: 2006 Descriptive Statistics (n=150 Companies).**

\*Percentage of companies for which dummy variable 1 was used

VARIABLES	MEAN	STD DEV	%		MIN	MAX
TIME	127.07	66.96	89*	PRED. VALUE	83.80	159.14
CEOD	0.04	0.20		RESIDUAL	-97.48	395.35
ACIN	2.82	0.20	78*	STD PRED. VALUE	-2.92	2.16
ERMD	0.04	0.12	75*	STD RESIDUAL	-1.46	4.43
CGDC	0.01	2.70				
BODS	9.25					

The above table 1 shows the descriptive statistics for corporate governance variables and Accounting quality defined by Timeliness (TIME). From the statistics, the mean TIME in 2006 is 127days with a standard deviation of 67days. This indicates that it takes an average of 127days in 2006 to publish financial reports. Other statistics are shown: the Board Size (BODS) averages nine (9) members, indicating that in a sample of 150 companies in Nigeria, the average BODS is 9 members. The Audit Committee Independence (ACIN) of 3, indicates the proportion of non-executive directors of 3. However, the minimum and maximum predicted values are 83 and 159 respectively. Meanwhile, more of the companies CEO positions are separate from the chairman of the board position, more ERMD and CGDC reports disclosure in the accounts.

**Table 2: 2007 Descriptive Statistics (n=150 Companies).**

VARIABLE	MEAN	STD.DEV	%		MIN	MAX
TIME	124.48	55.22	93*	PRED.VALUE	87.00	139.48
CEOD	0.04	0.48		RESIDUAL	-87.58	209.68
ACIN	2.81	0.08	69*	STD PRED.VALUE	-5.654	2.26
ERMD	0.01	0.12	72*	STD RESIDUAL	-1.565	3.75
CGDC	0.01	2.76				
BODS	9.27					

\*Percentage of companies for which dummy variable 1 was used

In table 2, the descriptive statistics are shown to reflect 2007 data statistics. The mean TIME is 124 days with a standard deviation of 55 days. The ACIN is given as 3 on the average, BODS is 9. The minimum and the maximum predicted values are 87 and 139 respectively.

**Table 3:2008 Descriptive Statistics (n=150 Companies).**

VARIABLES	MEAN	STD.DEV	%		MIN	MAX
TIME	138.41	80.44	95*	PRED.VALUE	76.29	179.43
CEOD	0.03	0.18		RESIDUAL	-108.30	374.52
ACIN	0.03	0.16	80*	STD	-4.15	2.74
ERMD	0.02	0.14	79*	PRED.VALUE	-1.34	4.64
CGDC	9.36	2.79		STD RESIDUAL		
BODS	2.83	0.50				

\*Percentage of companies for which dummy variable 1 was used

Table 3 above displays the descriptive statistics of 2008. The mean TIME averages 138 days with a standard deviation of 80 days. The ACIN and BODS have values of 3 and 9 respectively. The minimum and maximum values are 76 and 179 respectively.

**Table 4: 2009 Descriptive Statistics (n=150 Companies).**

VARIABLES	MEAN	STD.DEV	%		MIN	MAX
TIME	150.39	76.03		PREDVALUE	106,23	194.90
CEOD	0.03	0.180	92*	RESIDUAL	-	342.62
ACIN	2.83	0.12		STD	13490	-2.60
ERMD	0.01	0.08	70*	PRED.VALUE	-2.58	4.53
CGDC	0.01	2.79	79*	STD RESIDUAL	-178	
BODS	9.49	0.47				

\*Percentage of companies for which

ch dummy variable 1 was used

In table 4, the 2009 data statistics from 150 companies indicate that the average TIME to publish financial reports is 150 days with a standard deviation of 76days. The BODS has an average membership of 9 with a standard deviation of 2, the ACIN averages 2. The predicted values for minimum and maximum values are given as 106 and 194 respectively.

Given the comparative analysis of the descriptive statistics for the period under consideration, it is seen that the average TIME in 2007 reduced from 127days in 2006 to 124days in 2007; but with increase from 128days in 2008 to 150days in 2009. It is however indicative to note that in all the years under consideration, all other indicators remain the same.

In the Ordinary Least Square (OLS) Regression Results for TIME-Corporate governance Data for 2006(n=150) (see appendix 1<sup>A</sup>), the equation model derived from the results is shown, thus,  
 $TIME = 133.6 - 2.7CEOD + 12.8ACIN + 16.3ERMD - 16.1CGDC - 4.7BODS + U_t$

(3.73) (-0.09) (1.09) (0.55) (-0.33) (-2.31)

R<sup>2</sup>=0.04; R= 1.3; D.W. = 1.7

The T-values are reported in parentheses below the coefficients. The R<sup>2</sup> of 0.004 shows that only about 4% of the total variations in TIME can be explained by the independent variables. The F-statistic of 1.3 failed the significance test at 5% level. This shows that there is no significant linear relationship between the dependent variable (TIME) and the independent variables (CEOD, BODS, CGDC, ERMD, ACIN) used. Furthermore, the D.W.-statistic of 1.7 shows the absence of auto-correlation, which signifies that the error term, is well-behaved.

However, CEOD, BODS and CGDC have negative relationships with TIME, showing a decrease in TIME with decreases in these variables. On the other hand, ERMD and ACIN have positive relationships with TIME, suggesting that both variables increase TIME but not significantly at 5%. In addition, only BODS passed the significance test at 5% level while the other variables failed their significance test at the same level. This shows that the BODS has a significant negative relationship with TIME in the period under study, while the other variables are negatively but not significantly related to TIME.

In the Ordinary Least Square (OLS) Regression Results for TIME-Corporate governance Data for 2007(n=150) (see appendix 1<sup>B</sup>) the equation model derived from the results is shown, thus:

$$\text{TIME} = 143.2 + 31.7\text{CEOD} + 4.9\text{ACIN} + 35.6\text{ERMD} - 20.7\text{CGDC} - 3.6\text{BODS} + U_t$$

(4.98)    (1.39)    (0.51)    (-0.46)    (-0.46)    (-2.2)

R<sup>2</sup> = 0.05; F (5,144) = 1.6; D.W. = 1.8

The T-values are presented in parentheses below the coefficients. The R<sup>2</sup> of 0.05 shows that only about 5% of the total variations in TIME can be explained by the independent variables. The F-value of 1.6 failed the significance test at 5% level. This shows that there is no significant linear relationship between TIME and the independent variables used; the DW-statistic of 1.8 shows the absence of autocorrelation. Furthermore, CEOD and ACIN have positive relationship with TIME while BODS, CGDC and ERMD have negative relationship with TIME. Also, only BODS passed the t-test at 5% level of significance by having a value of -2.28, which is greater than the critical t-value of 1.96. The other independent variables failed their T- test at the same level of significance. This shows that BODS has a significant and negative relationship with TIME during the period under review.

In the Ordinary Least Square (OLS) Regression Results for TIME-Corporate governance Data for 2008(n=150) (see appendix 1<sup>C</sup>), the equation model derived from the results is shown, thus:

$$\text{TIME} = 189.2 - 0.4\text{CEOD} - 11.3\text{ACIN} - 31.4\text{ERMD} - 20.2\text{CGDC} - 1.9\text{BODS} + U_t$$

(4.66)    (-0.01)    (-0.83)    (-0.73)    (-0.41)    (-0.78)

R<sup>2</sup> = 0.02; F (5,144) = 0.6; D.W. = 2.000

The T-values are presented in parentheses below the coefficients. The R<sup>2</sup> of 0.02 shows that only about 2% of the total variations in TIME can be explained by the independent variables. The F-statistic of 0.6 is very low, thus failing the significance test at 5% level. This shows that there is no significant linear relationship between TIME and the independent variables. The D.W-

statistic of 2 shows the absence of positive first order serial correlation. Thus, the error term is well behaved.

However, all the variables have negative relationship with TIME, indicating that these variables reduce TIME. In addition, none of the independent variables passed their t-test at 5% level of significance, showing that none of these variables is a major determinant of TIME during the period under study, even though the independent variables show a reduction in TIME

In the Ordinary Least Square (OLS) Regression Results for TIME-Corporate governance Data for 2009(n=150) (see appendix 1<sup>D</sup>), the equation model derived from the results is shown, thus:

$$\text{TIME} = 217.8 - 10.3\text{CEOD} - 11.2\text{ACIN} - 54.3\text{ERMD} + 24.3\text{CGDC} - 3.7\text{BODS} + U_t$$

(5.29) (-0.30) (-0.81) (-0.70) (0.22) (-1.65)

$R^2 = 0.03$ ;  $F(5, 144) = 0.89$ ;  $D.W. = 1.8$

The T-values are reported in parentheses below the coefficients. The  $R^2$  of 0.03 shows that only 3% of the total variations in TIME can be explained by the explanatory variables. The F-value of 0.89 is very low, thus failing the F-test at 5% level of significance. This shows that there is no significant linear relationship between TIME and the independent variables. The D.W-statistic of 1.8 shows the absence of serial correlation.

In addition, all the variables, except CGDC, have negative relationships with TIME, which shows that an increase in any of the variables will reduce TIME, while CGDC will increase TIME. However, none of the variables passed the T-test at 5% level of significance. This shows that none of the variables is a major determinant of TIME in the period under review.

### **Summary of Findings**

From the analysis of the data, the summary of findings is as follows:

- In 2006, CEOD and CGDC have negative impact on TIME while ERMD and ACIN positive impact on TIME are not significant. However, BODS has a significant negative impact on TIME.
- In 2007, CGDC and ERMD have a negative impact on TIME, while CEOD and ACIN have positive impact on TIME but the impact is not statistically significant. On the other hand, BODS has a negative and significant impact on TIME.
- In 2008, CEOD, ACIN, ERMD, CGDC and BODS have negative impact on TIME but none of them is statistically significant.
- In 2009, CEOD, ACIN, ERMD and BODS have negative impact on TIME but are not statistically significant. However, CGDC has positive impact on TIME but also, not significant.
- In 2006-2009, the  $R^2$  ranges between 2% and 5%, suggesting very low explanations of the dependent variable of Accounting Quality( proxied by Timeliness) by the independent variables
- The appriori expectations of ERMD-TIME and ACIN-TIME negative relationship( in 2006), of CEOD-TIME and ACIN-TIME negative relationship( in 2007) and of CGDC-

TIME relationship (in 2009) did not hold as they exhibited positive relationships with TIME

### **Discussion of Findings**

The negative impact of CEOD on TIME in 2006 is consistent with the findings of Rechner and Dalton (1991) and Beasley (1996), indicating that the absence of dual role reduces TIME. CGDC negative impact on TIME suggests that disclosure of corporate governance report decreases the time at which reports are published. This is consistent with the position of Sarbanes-Oxley (2002) and the Code of Corporate Governance (2003).

The finding on ERMD-TIME positive impact is inconsistent with the study conducted by Donwa and Ibadin (2010) and Labarge (2003). While ACIN positive impact on TIME is in line with the study made by Dye (1988) and Wolnizer (1995), meaning that if the number of non-executive directors on the committee is more or exactly the same as what is statutorily required, it will fast-track the publication of financial reports. BODS' negative impact on TIME is consistent with the finding by Staw, Pearce and Zahra (1992); Goodstein *et al.* 1994, Yermack (1996) and Dehaene *et al.* (2001).

In 2007, CGDC has negative impact on TIME is consistent with the finding of Fama and Jensen (1983), the views of Sarbanes-Oxley (2002) and Code of Corporate Governance (2003). Similarly, ERMD negative impact on TIME is consistent with the study conducted by Donwa and Ibadin (2010). CEOD positive impact on TIME is in line with the findings of Dechow *et al* (1996). ACIN positive impact on TIME is consistent with the findings of Beasley (1996). It means that if the non-executive directors are more on the board, it will increase the time at which financial reports is published. In contrast, BODS has negative impact on TIME; and is consistent with the study made by Eisenberg *et al* (1998), and Yermack (1996).

In 2008, CEOD, ACIN, ERMD, CGDC and BODS have negative impact on TIME. The findings on CEOD-TIME, ACIN-TIME, ERMD-TIME CGDC-TIME and BODS-TIME relationships respectively agree with Davis, Schoorman and Donaldson (1997); Rechner and Dalton (1991) Donaldson and Davis (1991), Donwa and Ibadin (2010), Code of Corporate Governance, 2003 and Eisenberg *et al* (1998).

In 2009, CEOD, ACIN, ERMD and BODS have negative impact on TIME. This means that these variables reduce the time at which financial reports are published; and consistent with Rechner and Dalton (1991) Donaldson and Davis (1991), Donwa and Ibadin (2010), Code of Corporate Governance (2003). However, CGDC is inconsistent with Eisenberg *et al* (1998) and Code of Corporate Governance (2003); as CGDC increases the time at which financial reports are published.

### **Recommendations**

This paper focuses on corporate governance and accounting quality; with broad objective of appraising the relationships that exist among the variables. This is expected in order to initiate policy direction that will enhance accounting quality with the right corporate governance mechanisms. On account of results of this research, it is advised that:



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- Appropriate corporate governance variables such as more non-executive members on the Board are sustained or encouraged. As observed, this can foster prompt and reliable financial reports.
- Besides, disclosure of corporate governance and enterprise risk management disclosure reports is encouraged for stakeholders' information and review.
- Finally, corporate policies should reflect commitment to company variables (such as the present board size) that will positively impact on the quality of financial reporting. This position is borne out of the preponderance of the negative relationship between BODS and TIME.

### **Conclusion and Remarks**

This paper appraises the impact of corporate governance variables on accounting quality. To this end, 150 companies were used and drawn from the Nigerian Stock Exchange with companies spread from the six geo-political zones in Nigeria. Findings from study are mixed; variables of studies reflect some consistency and (inconsistency in some other scenarios and circumstances) with previous studies. To this end, it is advised that caution be exercised in making sweeping generalization, using the findings of this paper as benchmarks unless the following recommendations for future research are made:

- Future research should accommodate more corporate governance and company variables possibly combined in a number of ways with accounting quality proxies.
- Future research could broaden the pooled data and extend them to accommodate current years.
- The informal sector companies or better still, more companies that are quoted on the Stock Exchange could be used.

It is hoped that the actualization of these additional suggestions would move us closer to the quest for a body of theory in this area of research

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