













































































































assignment. Secondly the audit of debt is relatively more time consuming than audit of equity especially if the number of the debtholders is large (Carslaw & Kaplan, 1991).

#### **2.6.4.4 Type of industry**

Hossain & Taylor (2008) grouped industries into two classes (financial, e.g. banks and other financial institutions and insurance companies; and non-financial) for purposes of analysis. The author uses two measures to examine the impact of company industry membership on audit report lag. One is whether the company belongs to a financial industry; the other is whether the company belongs to a non-financial industry. Earlier research has used industry type as an explanatory variable for audit report lag. One industry may have complex manufacturing process while others may not. The adoption of different industry-related accounting measurement, valuation and disclosure techniques and policies may cause lag in preparing accounts and audit of complex industries. Therefore, the time to perform the audit work may be longer for the companies having complex manufacturing process than other companies. Audit report lag is expected to be shorter for companies in the financial industry that hold little inventory or fixed assets (Bamber et al., 1993). The financial assets they hold are easier to audit than non-financial assets. Therefore, audits of financial companies are expected to require less time than audits of non-financial companies. Studies by Ashton et al. (1989), Newton & Ashton (1989) and Bamber et al. (1993) consistently found that financial companies have shorter audit report lag compared to non-financial companies. Audit report lag is expected to be shorter for firms with less or no inventory levels.

#### **2.6.4.5 Type of auditor**

Al-Ajmi (2008) posit that larger audit firms are able to complete audit engagements faster than smaller ones since they possess the capacity and technology that gives them a competitive advantage over smaller audit firms. Also Ahmed (2003) states that large audit firms have a rich

source of experience as a result of multiple clientele base hence are able to settle disagreement with management faster than smaller firms do. Conversely, it can be argued that large audit firms for the purpose of protecting their image or brand name will consume less time to audit entities unlike smaller audit firms (Afify, 2009). The Big 4 audit firms are in this case considered more experienced, resourceful and technological advantaged than smaller audit firms hence it is expected that a firm's ARL is less when audited by a Big 4 as supported by Lee et al., (2008).

## **2.7 THEORETICAL FRAMEWORK**

Predominantly two major theories have been adopted by researchers to explain the phenomenon of delay in the release of audited annual reports. Studies by Dyer & McHugh (1975), Courtis (1976), Gilling (1977), Whittred & Zimmer (1984), Ashton et al. (1987), Carslaw & Kaplan (1991), Ng and Tai (1994), Hossain and Taylor (1998), Owusu-Ansah & Leventis (2006), Lee et al. (2008), Afify (2009), Habib (2015) and Sultana et al. (2015) either hinged on the agency theory and/or the resource dependency theory to explain the concept of audit report lag. This study however dwells on both theories since both theories explain the phenomenon of ARL perfectly together than individually (Habib, 2015).

### **2.7.1 Agency Theory**

Agency theory is a common theory used to explain the phenomenon of the separation of an organisation's ownership from its control, and is widely adopted by researchers to explain the complex relationship that exists between the owners and the managers of public companies and companies that hold funds in trust for third parties. According to Jensen & Meckling (1976) the agency relationship is seen as: the division of corporate control from its proprietorship could create a contention between the stakeholders' welfare and the managers' welfare. By agency theory, proprietors otherwise called principals, can lessen any potential clash with managers (agents)

following up on principals' benefit, by giving the agent a motivating force to act to the principal's advantage, and by inquiring monitoring costs intended to restrain the unordinary activities of the agent. Kiel and Nicholson (2003) have called attention to the fact that the detachment of control from proprietorship deduces that managers manages a firm for the benefit of the firm's proprietors. Clashes emerge when a firm's proprietors see that the directors are not dealing with the firm to the greatest advantage of the proprietors. As per the agency theory, managers possess superior knowledge which gives them an advantage over the firm's owners. The thinking is that a company's top managers might be more intrigued by their own welfare than in the welfare of the company's shareholders (Berle and Means, 1967). According to Eisenhardt (1989), the agency theory is worried with investigating and determining issues that happen in the relationship between principals (proprietors or shareholders) and their agents or top administration.

Blair (1996) posits that the agency theory lays on the assumptions that the ultimate goal of an organisation to expand the abundance of their proprietors or shareholders. The agency theory maintains that most companies work under states of fragmented data and vulnerability. Such conditions open up the organisation to two main agency problems namely adverse selection and moral hazard. Adverse selection arises when a shareholder (principal) cannot determine with reasonable certainty whether an agent accurately precisely speaks to his or her capacity to take every necessary step for which he or she is paid to do. Then again, moral hazard is a condition under which a principal can't make sure if an agent has advanced maximal exertion (Eisenhardt, 1989).

As per the agency theory, certain aspects came to the surface in relation to audit report timeliness. Obviously, the audit committee plays an inarguable part where they have to screen and report the advancement in the organizations. Agency theory is perceived as a relevant theory which is

applicable to this study because it explains the board of directors and audit committee, whereby each of them is functioning as a monitoring mechanism to reduce agency problems. Monitoring mechanism refers to corporate governance practices, the proper management performance and financial reporting processes (Nelson and Shukeri, 2011).

Research on audit committees is mainly based on agency theory proposed by Jensen and Meckling (1976) and Fama and Jensen (1983). According to agency theory, because of separation and difference in terms of interest between management (agents) and shareholders (principals), the agent may not necessarily always perform in the best interest of principals. This leads to the creation of agency problems such as suboptimal investment decisions, unnecessary and excessive spending and information asymmetry as a result of opportunistic persons involved in management of the business. Turley & Zaman (2004) claim that there is the need for an audit report lag since in a way it serves as means to safeguard shareholders' interests through its oversight responsibility by ensuring appropriate financial reporting, internal control, and external auditing activity. The relation between corporate governance and timeliness of reporting is based on the justification that if audit committee is operational in the execution of its monitoring obligation of financial reporting process, it will influence the quality of financial reporting which may prompt the opportune presentation of the annual report.

### **2.7.2 Resource Dependency theory**

Resource dependency theorist explain the behaviour of organisations based on the fundamental assumption that organisation that depend on “critical” and important resources are likely to be influenced in their decision as a result of their dependence on that resources. Hence the decisions and actions of an organisation can be explained depending on the particular dependency situation.

According to Hilman & Dalziel (2003), the second most important function of the board is the supply of resources to the firm. Pfeffer & Salancik (1978) provide the theoretical underpinning for the provision-of-resource function of boards through their work on resource dependency theory which claims that

“when organisations appoint an individual to a board, it expects the individual will come to support the organisation, will concern itself with the problems, will variably represent it to others and will try to aid it” (Pfeffer & Salancik, 1978).

Subsequently, Dalton et al. (2007), Johnson et al (1996), Zahra & Pearce (1989) emphasizes that although agency theory is the predominant theory used in the research on boards of directors and their sub committees Resource Dependency theory (RDT) has greater research influence. Prior studies by Johnson et al., (1996) and Zahra & Pearce (1989) which borders on board of directors settle that RDT is supported more often than other board perspectives which includes agency theory. Hence, even though RDT is not predominantly used to study boards unlike agency theory, evidence from empirical literature suggests that it is a more suitable spectacle for understanding boards. Pfeffer (1972) proclaims that boards empower organisations to minimize reliance or access vital resources.

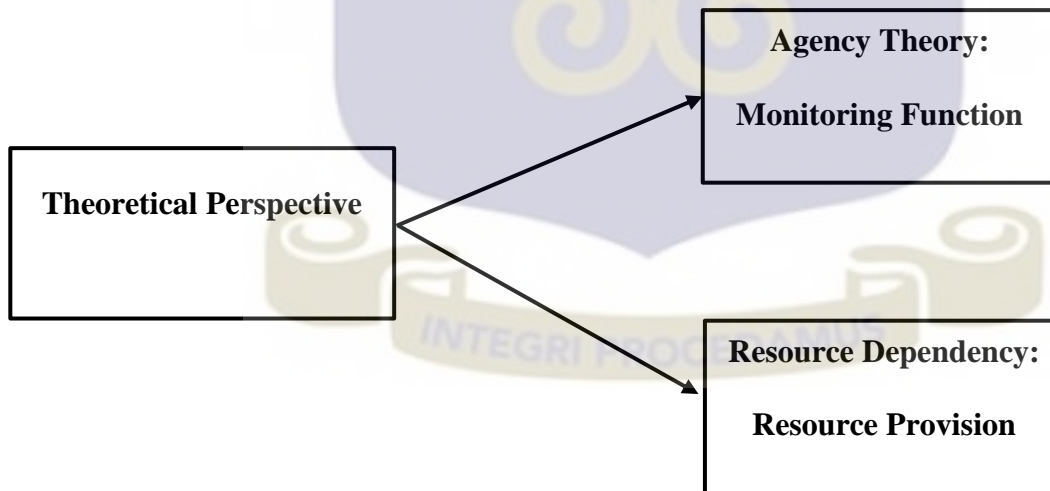
According to Pfeffer & Salancik (1978) directors bring four benefits to firms and these include: (a) information in the form of advice and counsel, (b) access to channels of information between the firm and environmental contingencies, (c) preferential access to resources, and (d) legitimacy. For instance, Provan (1980) finds that firms that are able to entice and bring on board powerful members of the public onto their boards are able to obtain important resources from the environment. Even though Hillman and Dalziel (2003) suggest two broad functions of the board,

that is, monitoring from the agency theory perspective and resource provision, earlier reviews by Johnson et al., 1996; Zahra & Pearce, (1989) discuss roles of directors related to RDT ideas. Hillman and Dalziel (2003) argue that the level of board capital, that is, sum of director human and social capital along with incentives, will influence both monitoring and resource provision by the board.

In summary, even though agency theory has been predominantly used in ARL literature, the resource dependency theory is appropriate for this study not only because its application to board related research seems to be gaining attention but because contemporarily, corporate governance seems have gone pass the mere monitoring function of boards to the resource provision function of boards (Hilman & Dalziel, 2003; Hilman et al., 2009).

## 2.8 THEORETICAL FRAMEWORK

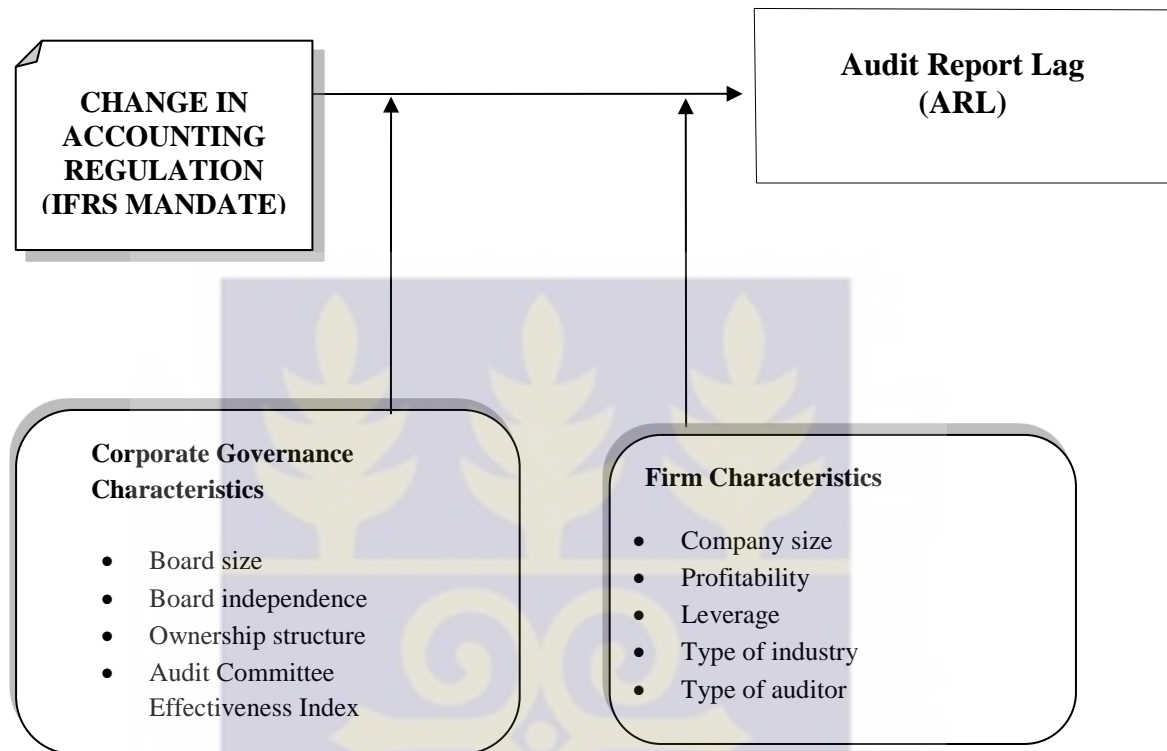
**Figure 2. 1: Theoretical Framework**



*Source: Researcher's Own frame*

## 2.9 CONCEPTUAL FRAMEWORK

Figure 2. 2: Conceptual Framework



*Source: Researcher's Own frame*

## 2.10 CONCLUSION

This chapter reviewed extant literature and theories on ARL in relation to the main objectives of the study. Both a theoretical and conceptual frameworks are developed for the study based on the review conducted and depicted in the diagram above.

The conceptual framework diagram shows that, ARL is affected by several factors. Based on the framework, the factors which explain the ARL could be grouped into three (3), namely; change in accounting regulation (IFRS mandate), corporate governance variables and firm characteristic variables. However, the effect of the change in accounting regulation (IFRS mandate) on ARL could be moderated by corporate governance characteristics.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter outlines a detailed analysis of the procedures engaged in fulfill the objectives that this research seeks to address. This chapter highlights the research philosophy, discusses the research strategy and design adopted, explains the data gathering methods sampling techniques and data analysis techniques employed by this research in answering the research objectives stated.

#### **3.2 RESEARCH PHILOSOPHY**

The research methodology According to Heeks & Bailur (2007), refers to the systematic and logical approach taken towards the collection and analysis of data so that information can be gained from those data. Holden (2004) argues that research methodology, which is the “how of research”, necessitates or requires philosophical solution which is deemed as the “why of the research”. Burrell & Morgan (1979) postulate that in emerging philosophical perspective in research, the researcher assumes on the nature of society, that is, whether society evolves rationally or is viewed from a radical change perspective. This assumption aids the researcher to identify the methods of advancement and nature of knowledge (Saunders, Lewis & Thornhill, 2007). As a result, the research philosophy adopted for the study is heavily reliant on the certain key assumptions of the researcher’s view of the world of knowledge. As put by Holden and Lynch (2004), based on a researcher’s sociological persuasion, the researcher’s assumptions are consequential to each other, in the sense that, their view of ontology affects their epistemological persuasion which, in turn, affects their view of human nature, consequently, choice of methodology logically follows the

assumptions the researcher has already made. According to Saunders et al. (2007) the three ways of perceiving research philosophy are epistemology, ontology, and axiology.

### **3.3 ONTOLOGY AND EPISTEMOLOGY**

Blaikie (2000) summarizes Ontology as the claims and assumptions in relation to what researchers believe to constitute social reality. These are the assertions and assumptions that are made about the nature of social reality, what exists, what it looks like, what units make up it and how these units interact with themselves (Blaikie, 2000). In management research the ontological assumptions are categorized into two, that is, objectivism and subjectivism (Saunders et al., 2007). Objectivism or objective researchers represent the position that reality is “out there” (Senik, 2009). These group of researchers see the world as a single reality (Bisman, 2010) hence anything perceived through the lens of objectivism is reality (Sarantakos, 2012). Subjectivism or subjective researchers hold the view that reality is external and a resultant product from one’s mind (Senik, 2009); it is idealistic and non-material (Lincon, Lynham & Guba, 2011); and internally experienced (Bisman, 2003).

Epistemology: This deals with the acquisition of knowledge. According to Blaikie (2000) epistemology is summarized as the possible avenues of acquiring knowledge of social reality, whatever it is understood to be. Similarly, Burrell & Morgan (1987) subjective researchers defend the view that knowledge can only be acquired through personal experience and investigation since its soft. These groups of researchers are interpretive with the notion that, human beings can best be studied through ethnography, social interactions, and hermeneutics. Positivist researchers comprehend the social world to be describable through predictions-causal association between components or scientific techniques hence adopt hypothetical-deductions to explain a given event.

Also, two major research philosophical paradigms of positivist and interpretivist have been advocated by Hussey and Hussey (1997). The positivist researchers perceive knowledge as a solitary, tangible reality while the interpretivist assumes the presence of multiple realities in gathering knowledge.

To address the research questions, this study followed the positivism paradigm. Ontologically, this study builds on the position that reality is objective and it is a natural phenomenon. Hence, information on a phenomenon can be obtained by observing. The justification for the choice of these approaches is due to the fact that this study predominantly seeks to identify causal relationships that exist between audit report lag, change in accounting regulation and corporate governance variables.

### **3.4 RESEARCH DESIGN**

In carrying out the research, the researcher is obliged to plan and strategize how the study will be conducted in order to exert some level of control over the study. Burns & Grove (2010) explains that designing the study allows adequate planning and implementation of the study to deduce evidence similar to the status quo. Also, Polit & Beck (2004) describe research design as a blueprint for carrying out a study in a way that permits for maximum control over reasons that might restrict the validity of the study. Saunders et al. (2007) emphasize on two main research approaches, that is, inductive and deductive approach. With the inductive approach, the researcher collects data and develops a theory based on the data analysis while the deductive approach refers to the development of theory based hypothesis, testing of those hypothesis in the light of those theories and making modifications to the theory where necessary as a result of the findings (Saunders, 2007; Robson, 2002). This study was carried out by means of the deductive research approach. With regard to this approach the study began with theories from which hypotheses were

developed (deduced), then proceeded to the collection of data, data analysis and finally the evaluation of the findings in light of the theories. The study adopted this approach since it's been predominantly used in prior audit report lag literature.

This research also employs the quantitative research design over its qualitative counterpart since positivist stance has been the basis of this study. Quantitative approach advocates the collection of objective data, rigorous measurement and the use of statistical methods in the analysis of the data collected in order to be able to generalize the results to large populations. However, this approach has been critiqued of not providing objective explanation to why the factors observed may have happened. The choice of the research method depends mainly on the nature of the study, the researcher's resource availability and skills (Saunders et al., 2007; Bryman and Bell, 2003). The quantitative methodology comprises of methods of data collection such as the use of primary and secondary data, descriptive and statistical inferences in analyzing the findings and results of the study.

### **3.5 RESEARCH POPULATION**

Polit and Hungler (1999), defined population as the totality of all subjects that pertains to a set specification, comprising the entire group of persons that is of interest to the researcher and to whom the research results can be generalized. The population for the study covered all 35 companies that were listed on the GSE as at 2014 fiscal year-end.

### **3.6 RESEARCH SAMPLE**

The study sample includes companies listed on the GSE considering the inability to use the whole population. The GSE Fact book showed that by the end of 2014, the GSE had listed 35 companies. The main criteria used for sampling the firms was the fact that the firm must have been listed for

the entire period of the study 2003-2014. Also the firm should not be in the mining industry or financial sector because of the uniqueness of regulations in these sectors.

Using these criteria, the sample size for the study was 14 firms. The distribution of sample firms is contained in Table 5.1 below.

**Table 3. 1 Distribution of Sample Firms**

Sector	No. of Listed Firms	Number included in Sample	% Included
Manufacturing	8	5	63.00
Mining	3	0	0.00
Food & Beverage	2	2	100.00
Printing & Publishing	2	2	100.00
Banking, Finance & Insurance	12	0	0.00
Pharmaceuticals	2	1	50.00
Distribution & Trading	4	2	50.00
Information, Communication Technology	2	2	100.00
Oil & Gas	1	0	0.00

In line with quantitative studies, this study concentrates on audited annual reports for twelve (12) years (from 2003 to 2014) in order to get a wider firm-year observation (Matsumura et al., 2011).

This provided a total number of 168 firm-year observations. This made the study a longitudinal study hence the researcher employed an unbalanced panel regression model.

### **3.7 DATA COLLECTION INSTRUMENTS**

This study adopts the explanatory research approach which aided to “examine and explain the relationships between variables in a particular cause and effect relationship” (Saunders et al., 2007). The primary data source was the annual reports of listed firms on the GSE. As posited by Cozby (2003) this source of data is archival in nature and involves using previously compiled information to answer research questions. Since annual reports seems to be the predominant vehicle of communication between management and stakeholders, they are perceived as the most vital avenue that firms divulge their corporate information.

#### **3.7.1 Time Period**

The focus period for collecting data for the study was financial years 2003 to 2014. The period 2003 to 2007 represented periods before the mandatory IFRS adoption and 2008 to 2014 were post adoption of the IFRS. At the time of data collection for this study, the 2014 annual reports were the most recent reports from the GSE. This provided five years’ continuous data pre-IFRS mandate (2003 – 2007) and a seven years’ comparative representing the post-IFRS mandate period.

The five years pre and seven years post adoption were long enough to enable the establishment of trends. The twelve firm years compensated for the relatively small sample because of the number of companies listed on the GSE.

### **3.8 DEFINITION AND MEASUREMENT OF VARIABLES**

This section defines the various variables used in the research. These variables lead to the development of the two models in order to meet the study objectives. The classification of a

variable as a dependent, independent and control variable is explained in the specified model discussed in later sections.

### **3.8.1 Dependent Variables**

#### **3.8.1.1 Audit Report Lag**

Prior literature in relation to the timeliness of audit reports to stakeholders have been predominantly measured using the common measure of the number of calendar days from year end to the date of auditor's report (Lee et al., 2008; Afify, 2009; Sultana et al., 2015). However, Habib (2015) measured audit report lag as the number of calendar days from fiscal year-end to the date of the auditor's report. Nevertheless, ARL is measured in this study as the number of calendar days from year end to the date of auditor's report.

### **3.8.2 Independent variables**

The independent variables that were used for the study were the change in accounting regulation and corporate governance mechanisms of Ghanaian listed companies. The corporate governance characteristics included in the study are: board size; board independence; ownership composition and audit committee effectiveness which is a composite measure consisting of audit committee independence; audit committee financial expertise, audit committee experience, audit committee size and audit committee gender.

#### **3.8.2.1 Change in Accounting Regulation (IFRS Adoption)**

Empirical evidence suggests IFRS is based on fair value accounting which uses a discretionary approach in valuing identical assets and liabilities relying on quoted prices in active markets (Habib, 2015). Dontoh et al. (2012) suggests that, this subjectivity leads to an increased amount of disclosure in relation to market risk. This therefore increases the amount of time spent by auditors

to mitigate audit risk leading to an increase in ARL. Hence in this study accounting regulation (IFRS adoption) is measured as a dummy variable with the value of 1 if post IFRS adoption and 0 pre IFRS adoption.

### **3.8.2.2 Board size**

In the extant literature, even though the direction of influence is mixed, board size is found to be potentially associated with directors' ability to monitor and control managers (Lipton and Lorsch, 1992). Habib (2015) found a positive relation between the number of directors and effective monitoring of managerial behavior. It is argued that audit report lag is likely to be shorter as the inherent and control risks will be assessed as very low.

Williams et al. (2005) maintains that bigger board size has more specialized skills and are better equipped to monitor management. However, Beasley (1996) argues that smaller boards are more efficient in ensuring financial reporting quality hence leading to lesser inherent risk leading to lower audit report lag. Board size refers to the number of directors who serve on the board (Zahra and Pearce II, 1989). It is measured by the log of total number of directors on the board.

### **3.8.2.3 Board independence**

Board independence which is also known as board composition is defined by Ayuso & Argandoña (2009) as "the degree to which board members are dependent on the current CEO or organization". Literature distinguishes between independent non-executive directors and dependent non-executive directors. According to Ayuso & Argandoña (2009) independent non-executive directors comprises those directors who are not in any way linked to the company while the dependent non-executive directors are those directors who have personal and/or professional relationships with the firm other than board membership. Other studies have reported significant positive associations between the proportion of NEDs and the timeliness of audited financial

reports. Also, prior literature suggests that board comprising a majority of independent directors are more likely to improve the financial reporting quality of firms by hiring industry specialist auditors, employing an internal audit function within the firm and engaging in higher levels of accounting conservatism (Goodwin, 2003). Thus, board independence is measured as the proportion of independent non-executive directors on the board; that is the number of independent NEDs to the total number of directors on the board.

#### **3.8.2.4 Ownership Structure**

Afify (2009) suggests that large overriding shareholders usually have stronger influence on management behaviour in favour of their own benefit with the result that attention frequently focuses on conflicts between large and minority shareholders (La Porta et al., 1999, 2001). In this respect, literature shows that ownership structure may have relevant corporate governance implications (Shleifer and Vishny, 1997). That is, the auditor's business risk affects the required audit risk in the audit engagement, and hereafter the degree of audit work required (Bamber et al., 1993). The increased level of audit work can end in an unnecessary audit delay. Audit literature proposes that the degree to which a company's shares are broadly held is one of the factors related to audit business risk (Brumfield et al., 1983; Arens et al., 2004). Hence for this study, ownership structure is measured by the percentage of total shares held by shareholders in excess of 5percent.

#### **3.8.2.5 Audit Committee Effectiveness**

According to DeZoort et al. (2002) as cited in Rochmah & Ghazali (2012) there are four elements that determine composite audit committee effectiveness: composition; authority; resources; and diligence.

### 3.8.2.5.1 Composition

This refers to the condition for qualifying as an audit committee member for example educational background, capability, independence and experience. The purpose of such requirement according to DeZoort et al., (2002) is “to enable audit committees to make judgments that are in the best interest of shareholders”. Consistent with prior studies, this study uses independence, experience and financial expertise as proxies for composition.

Hence, in order for the audit committee to be effective in its activities, there is the need to develop more effective internal controls and risk management processes. This the committee can only achieve if at least a member of the committee is knowledgeable in financial reporting and auditing (McDaniel, Marint & Maines, 2002; Mangena & Pike (2005); Cohen *et al.*, 2013). In that light, audit committee financial expertise is measured as a dummy variable which takes the value one (1) if at least one director of the audit committee has necessary expertise (based on educational, professional affiliations and/or a for-profit role) to be financially qualified; and zero (0) if otherwise in this study.

Overall, prior experience enables an audit committee member to be more efficient and effective in understanding the requirements and responsibilities of the sub-committee and its members (DeZoort, 1998; Beasley & Salterio, 2001). Therefore, in this study audit committee experience takes the value of one (1) if at least one director of the audit committee has prior audit committee experience and zero (0) if otherwise.

Klein (2002) and Bedard, Chtourou & Courteau (2004) have suggested that an independent audit committee is expected to be well able to augment key financial accounting issues such as earnings quality, dealings with the external auditor and mediation of disagreements due to a lack of bias. In

general, the actions of a more independent audit committee are therefore likely to reduce the time taken to issue the audit report (Sultana, 2015). In this study therefore, audit committee independence is a dichotomous variable which takes on the value one (1) if all member of the audit committee are external independent parties and zero (0) if otherwise.

#### **3.8.2.5.2 Authority**

As explained by DeZoort et al. (2002) refers to responsibility since to discharge its responsibilities an audit committee is given the authority (example to ask questions to the auditors, have access to relevant documents). Audit committee responsibilities should be documented in an audit committee charter. “A formal charter not only provides guidance to members as to their duties, but it is also a source of power for the audit committee” (Bedard et al., 2004). The assessment of authority dimension in this current study uses audit committee charter (i.e. whether there is a proxy statement concerning audit committee charter) and audit committee oversight responsibilities. This is measured as a dichotomous variable which assumes the value of one (1) where there is a proxy statement concerning audit committee charter and zero (0) if otherwise.

#### **3.8.2.5.3 Resources**

As posited by DeZoort et al. (2002) indicates that in order to attain effectiveness the audit committee must have sufficient resources in order to operate. In that vein for the audit committee to be able to perform its duties, it must have adequate number of committee members. Hence for the purpose of this study audit committee size is a dummy variable which takes on the value one (1) if the audit committee comprises of at least three (3) members and zero (0) if otherwise.

Prior corporate governance literature has stressed on the role and resources that gender diversity bring to the audit committee (Pucheta-Martinez & Fuentes, 2007; Gul, Srinidhi &

Ng, 2011; Sultana et al., 2015). In order to including audit committee diversity in this study, it is measured as a dummy variable which take on the value one (1) if there is the presence of a female on the audit committee and zero (0) if otherwise.

### **3.8.2.5.3 Diligence**

Expertise, independence, authority, and resources, will not result in effectiveness unless the audit committee is active. Diligence refers to “the willingness of committee members to work together as needed to prepare, ask questions, and pursue answers when dealing with management, internal auditors, external auditors, and other relevant constituents” (DeZoort et al., 2002). Proxy for diligence in this study is the number of meetings held per year by audit committee which is captured as a dummy variable taking a value of one (1) if audit committee held meetings more than four (4) in a year and zero (0) if otherwise.

Meanwhile, the score of audit committee effectiveness for a listed company is the sum of all requirements. Therefore, the maximum possible score for each company is 7. It is assumed that a higher score indicates a more effective audit committee.



**Table 3. 2 Component of Audit Committee Effectiveness Index**

<b>Dimension</b>	<b>Code</b>	<b>Proxies</b>	<b>Scoring</b>	<b>Data Source</b>
<b>Composition</b>	ACINDI	AC Independence All member of the audit committee are external independent parties	1;0	Company Annual Report
	ACFEXP	AC expertise  At least one member of the AC has educational background and experience in accounting or finance.	1;0	Company Annual Report
	ACEXPE	At least one member of AC has prior audit committee experience.	1;0	Company Annual Report
<b>Authority</b>	ACCHART	AC charter  Proxy statements concerning AC charter	1;0	Company Annual Report
<b>Resource</b>	ACSIZE	AC size  Comprise at least three members	1;0	Company Annual Report
	ACGEN	At least one member of AC is a female	1;0	Company Annual Report
<b>Diligence</b>	ACMEET	AC meeting  AC has meetings at least four times in a year.	1;0	Company Annual Report

### 3.8.3 Control variables

A review of the literature on audit report timeliness led to the inclusion of the following as control variables in the multiple regression models for testing the hypotheses. They include: leverage; profitability; firm size; industry type and auditor type.

### **3.8.3.1 Leverage**

Leverage is measured using the annual reports of listed companies. In the corporate governance literature, leverage has been measured using a number of ratios. These ratios include: debt to assets, debt to shareholders' equity, and debt to standard capital employed. However, the most commonly used ratio in the audit report lag literature is the debt to assets ratio (Ettredge et al., 2006; Alkhatib & Marji, 2012; Sultana et al., 2015; Habib, 2015). In this respect, leverage is measured in this current study using the ratio of total debt to total assets.

### **3.8.3.2 Profitability**

Prior literature in audit report lag has used several measures in assessing profitability. These measures are either dichotomous or continuous in nature. In the case of the dichotomous measures, if a firm makes profit in a particular year, it takes on the value one (1) and zero (0) if otherwise. On the other hand, with respect to the continuous variable, profitability is predominantly measured as ROA and ROE (Davies & Whittred, 1980; Ashton & Wright, 1989; Ettredge, Li & Sun, 2006; Munsif, Raghunandan & Dasaratha, 2012; Blankley *et al.*, 2014). However, for the purpose of this study, the former (dichotomous variable) will be employed since the study only seeks to measure the presence of profit and not the ability of firms to generate profit based on the assets or equity.

### **2.8.3.3 Firm size**

Total assets, total sales, capital employed, number of employees, turnover, shareholder's equity and market capitalization have been used as measures for firm size. However, prior studies indicate that total assets appear to be the predominant measure for firm size hence in this present study it is measured by a natural logarithm of the company's fiscal year-end total assets (Al-Ghanem & Hegazy, 2011; Khasharmeh & Aljifri, 2010; Che-Ahmad & Abidin, 2008; Al-Ajmi, 2008; Bonson-Ponte et al., 2008).

#### **3.8.3.4 Industry type**

Previous research divided industries into two categories. One is whether a firm belongs to a financial industry and the other is whether a firm belongs to a non-financial industry for purposes of analysis (Hossain and Taylor, 2008). Dummy variables have been predominantly used in operationalizing industry of operation in prior studies of audit report lag (Owusu-Ansah & Leventis, 2006). Similarly, firms with little or no inventory are audited faster hence reduce the audit report lag. For the present study industry type was measure by assigning continuous variable to the individual industries.

#### **3.8.3.5 Auditor type**

Another corporate governance mechanism that is likely to affect audit report lag is auditor type. The role of the external auditor is not downplayed in the audit report lag literature. Larger audit firms characteristically possess more resources and expertise and are likely to be complete the audit in time in order to reduce audit report lag. It can also be contended that large audit firms deliver a higher quality audit as a result of greater monitoring ability (Al-Ajmi, 2008). They also have greater staffs and better experience in auditing the listed companies (Ahmed, 2003; Afify, 2009). Hence it is more likely that large audit firms will perform audit faster as they may have the advantage of using presumably more efficient audit technology (Newton and Ashton, 1989). The choice of external auditor is represented by Big4 vs. Non-Big4, which is one (1) for Big4 and zero (0) if otherwise (Ng and Tai, 1994; Imam et al., 2001; Ahmad and Kamarudin, 2003; Leventis et al., 2005).

**Table 3. 3 Operational Definitions of Variables**

Variable	Acronym	Operational Definition	Data Source
<b>Dependent Variables</b>			
Audit Report Lag	ARL	Number of calendar days from year end to the date of auditor's report.	Company Annual Report
<b>Independent Variables</b>			
Change in Accounting Regulation (IFRS Adoption)	ifrs	Dummy variable equal to 1 if the period is IFRS mandate, 0 otherwise	Institute of Chartered Accountants Ghana (ICAG)
Board Size	bdsiz	Log of total number of directors on the board	Company Annual Report
Board Independence	bdindi	number of independent non-executive directors to the total number of directors on the board	Company Annual Report
Ownership Structure	ownstr	Percentage of total shares held by shareholders in excess of 5percent.	Company Annual Report
Audit Committee Effectiveness	aceff	Total score of audit committee effectiveness index as presented in Table 3.0	Company Annual Report
<b>Control Variables</b>			
Leverage	lev	The ratio of the sum of short- and long-term debt to total long term capital.	Company Annual Report
Profitability	prof	Dummy variable that takes the value of one if the firm makes profit in the year; and zero otherwise	Company Annual Report
Firm size	csize	Natural log of the book value of total asset	Company Annual Report
Industry type	itype	Dummy variable: 1 for Manufacturing; 2 for Pharmaceutical; 3 for food and Beverage; 4 for distribution and trading; and 5 for printing and publishing.	Ghana Stock Exchange Website
Auditor Type	atype	Dummy variable that takes the value of one if the auditor is a BIG 4; and zero otherwise	Company Annual Report

### 3.9 MODEL SPECIFICATION

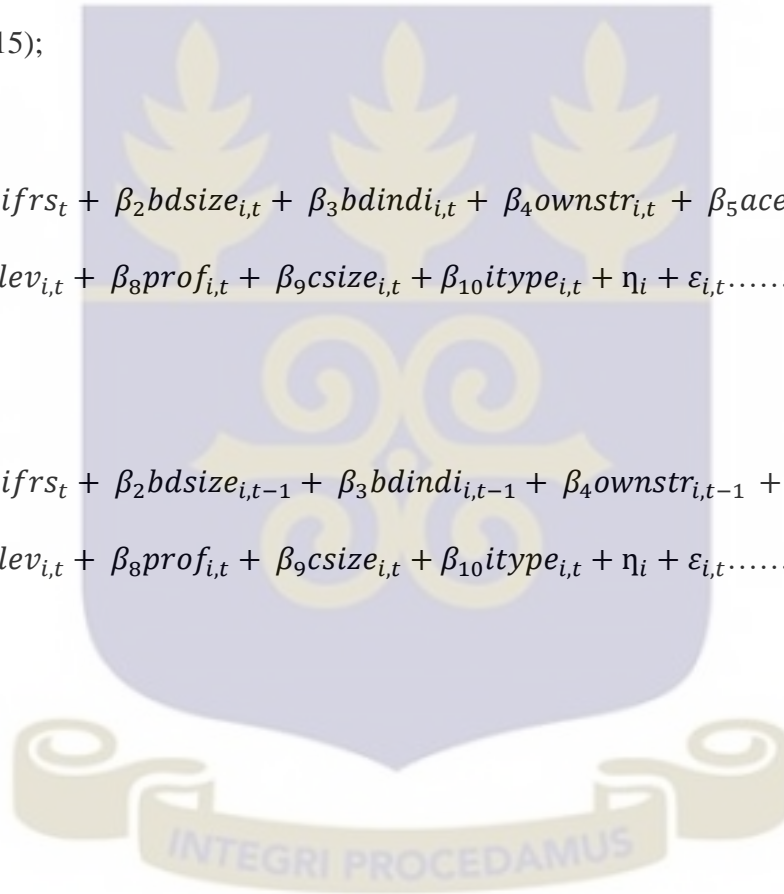
For the objectives two and three, the models utilize a panel data structure, the one most appropriate to the sample data due to the small sample size in terms of firms. This aids in solving the issue of omitted variable and at the same time helps obtain consistent estimators (Wooldridge, 2002). The main panel-corrected standard errors (pcse) regression tests performed to formally test the hypotheses are based on the models specified by the following two equations as adopted from Sultana et al. (2015);

#### Model 1

$$ARL_{i,t} = \beta_0 + \beta_1 ifrs_t + \beta_2 bdsiz_{i,t} + \beta_3 bdind_{i,t} + \beta_4 ownstr_{i,t} + \beta_5 aceff_{i,t} + \beta_6 atype_{i,t} + \beta_7 lev_{i,t} + \beta_8 prof_{i,t} + \beta_9 csize_{i,t} + \beta_{10} itype_{i,t} + \eta_i + \varepsilon_{i,t} \dots \dots \dots (1)$$

#### Model 2

$$ARL_{i,t} = \beta_0 + \beta_1 ifrs_t + \beta_2 bdsiz_{i,t-1} + \beta_3 bdind_{i,t-1} + \beta_4 ownstr_{i,t-1} + \beta_5 aceff_{i,t-1} + \beta_6 atype_{i,t} + \beta_7 lev_{i,t} + \beta_8 prof_{i,t} + \beta_9 csize_{i,t} + \beta_{10} itype_{i,t} + \eta_i + \varepsilon_{i,t} \dots \dots \dots (2)$$



Where:

ARL	Audit Report Lag
ifrs	Change in Accounting Regulation (IFRS Mandate)
bdsiz	Board Size
bndi	Board Composition
ownstr	Ownership Structure
aceff	Audit Committee Effectiveness Index
atype	Choice of a Big4 Audit Firm
lev	Leverage
prof	Profitability
csiz	Firm Size
itype	Industry Type
$\beta_0$	Intercept
$\beta_1$ to $\beta_{10}$	Coefficient of slope parameters
t-1	Each corporate governance characteristic lagged by one year
$\eta_i$	An unobservable variable that captures idiosyncratic features of each company that are constant over time
$\varepsilon_{i,t}$	Random shock or Error term

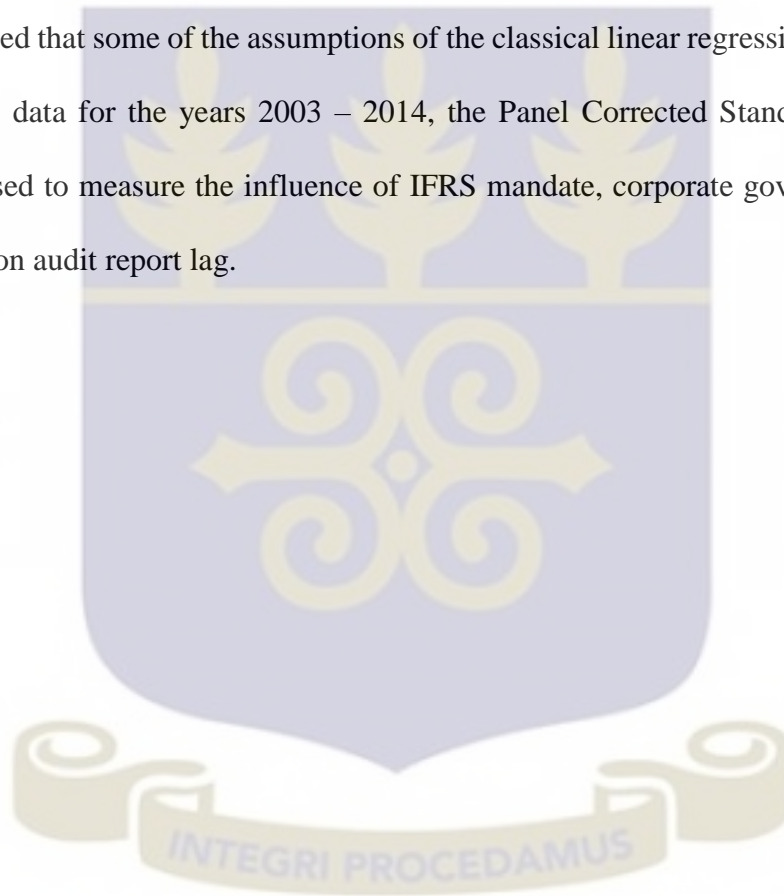
### 3.10 DATA ANALYSIS AND PRESENTATION

The data collected were analyzed using descriptive tests, tests of difference of means, correlation and regression analyses. The descriptive analysis included frequencies, summary statistics and graphs. The regression analysis was used to investigate the influence of IFRS mandate and corporate governance on ARL of listed companies in Ghana.

### 3.11 METHOD OF ESTIMATION

As indicated earlier, due to the small sample size in terms of firms, the models utilized a panel data structure. The method of estimation generally can be parametric or non-parametric. The choice of

an appropriate method of estimation depends largely on the characteristics of the data. As a result, the assumptions regarding panel data regression were tested to determine the appropriate regression model. Some of the main assumptions of the classical linear regression model which were tested included: an adequate number of cases; that there is no multicollinearity among the independent variables; that the data distribution is normal; that there is linearity; that the data is homoskedastic, that there are no significant outliers and independence of residuals confirmed. These tests revealed that some of the assumptions of the classical linear regression model were not met. Using panel data for the years 2003 – 2014, the Panel Corrected Standard Error (PCSE) regression was used to measure the influence of IFRS mandate, corporate governance and firm-related variables on audit report lag.



## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.1 INTRODUCTION

This chapter discusses and interprets the findings of the data collected using the research methods that were discussed in the methodology chapter. To achieve the study objectives outlined in chapter one, this chapter begins with the analysis and discussion of results from the descriptive analysis, and also that of the univariate tests performed. Findings from the regression analysis which tests the hypotheses are discussed in the final part of this chapter.

#### 4.2 DESCRIPTIVE STATISTICS

This section presents the descriptive statistics of the dependent, independent and control variables outlined in the methodology chapter. The dependent variable (i.e. ARL) is described using minimum, maximum, mean, standard deviation, skewness and kurtosis of the dependent variable. The variable is illustrated primarily on a year by year basis, an overall aggregate and finally clustered into pre and post mandatory adoption of the IFRS. This gives a fair description of the nature and direction of the variable.

#### 4.3 DESCRIPTIVE STATISTICS OF THE DEPENDENT VARIABLE (ARL)

The table 4.1 below shows the descriptive statistics of the aggregate dependent variable ARL and a year by year data for the sampled period. The aggregate mean ARL in days of the firms sampled is approximately 109 days, however it ranges between 32 to 614 days for firms to release audited financial statements. The significant finding about Table 4.1 is the fact that the ARL seems to decrease in the later years. ARL significantly reduced in the year 2006 where it averagely took sample firms 82 days to release audited financial statement. However, it also took the sampled

firms an average of 147 days to release audited financial statement to the public in 2012 which is the highest over the time period under study. The subsequent years after 2012 saw a reduction in the ARL which might be indicative of auditor's learning effect.

**Table 4. 1: Summary Statistics of ARL on Aggregate and year by year**

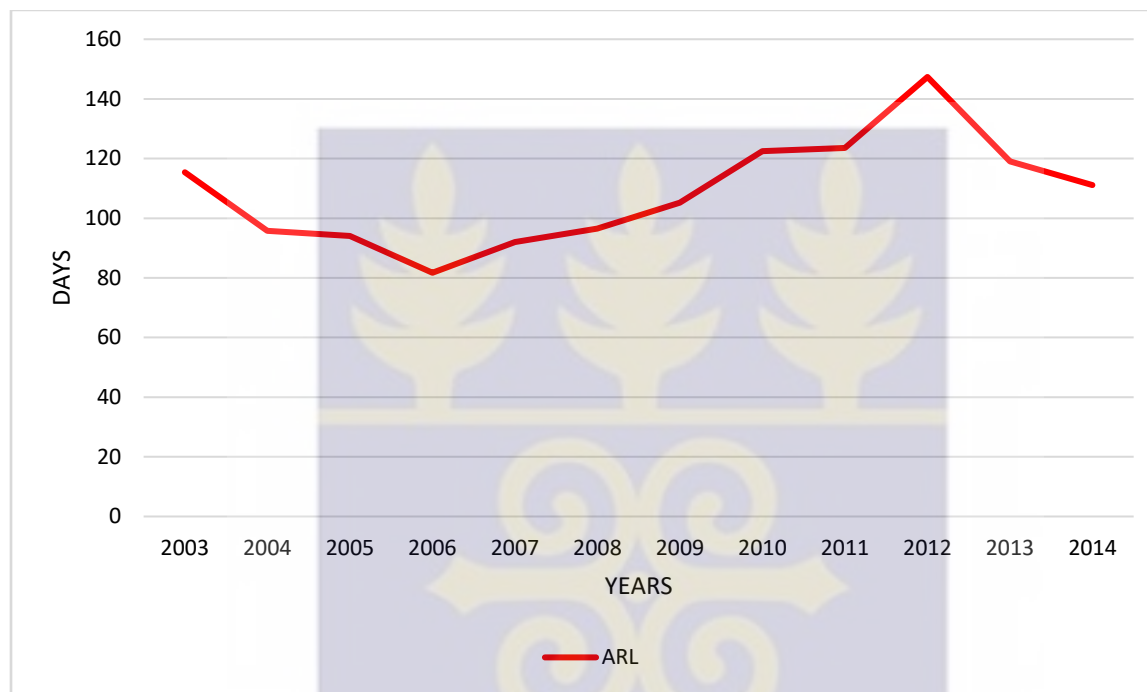
Aggregate/Year	Min	Max	Mean	SD	Skewness	Kurtosis
Aggregate	32	614	109	73.17	4.46	27.86
2003	63	281	115	59.09	1.68	4.33
2004	60	174	96	30.13	1.23	4.34
2005	32	180	94	35.69	1.01	4.31
2006	49	126	82	19.62	0.38	3.21
2007	70	134	92	17.23	1.25	4.08
2008	56	180	97	32.87	1.50	4.38
2009	51	312	105	66.22	2.37	7.99
2010	39	614	123	142.864	3.21	11.62
2011	68	382	124	87.73	2.19	6.63
2012	59	597	147	141.54	2.53	8.52
2013	54	259	119	64.02	1.40	3.65
2014	80	172	111	28.72	0.84	2.55

*Source: Source: Field work, 2003-2014*

A year by year analysis of ARL over the period shows interesting results. The average ARL seemed to be decreasing from 115 days to 82 days within the period of 2003 to 2006 and starts to increase steadily from 2007 to 2012 (92 days to 147 days) from which it begins to decline again from 2013 to 2014 (119 days to 111 days). The variable has a standard deviation of approximately 73 days which indicates some level of deviation from the mean for the listed firms sampled within the period under discussion. Data is statistically considered to be normally distributed if the

skewness value is  $\pm 1.96$  and the kurtosis value is within  $\pm 3$  (Haniffa & Hudaib, 2006). From the data in Table 4.1 it is obvious that the overall pooled dependent variable is not normally distributed with an average skewness of 4.46 and kurtosis of 27.86.

**Figure 4. 1:** Trends of Mean ARL of Firms



**Source:** *Source: Field work, 2003-2014*

**Table 4. 2:** Descriptive Statistics for Pre and Post IFRS mandate

Period	Min	Max	Mean	SD	Skewness	Kurtosis
Pre IFRS Mandate	32	281	95.8	36.32	2.39	11.57
Post IFRS Mandate	39	614	117.88	89.85	3.79	11.39

**Source:** *Statistical Analysis from Annual Reports of Companies from 2003-2014*

Concerning the descriptive statistics of the dependent variable for the pooled sample pre and post mandatory IFRS adoption in Ghana, Table 4.2 presents the summary. The average ARL for pre

mandatory IFRS adoption is approximately 96 days. The minimum and maximum range between 32 days and 281 days. Meanwhile, the mean ARL for post mandatory IFRS adoption is approximately 118 days and ranged between 39 days and 614 days. These results clearly show an increase in the mean ARL and the corresponding skewness and kurtosis of 3.79 and 11.39 respectively after the mandatory adoption. This could be attributed to the increased disclosure responsibility imposed by the mandatory adoption of IFRS as a result of its fair-value basis of accounting which gives room for the application of director's discretion. Hence external auditors in their bid to reduce audit risk are likely to spend more time during the audit due to the increased disclosures which may lead to an increase in ARL.

#### 4.4 DESCRIPTIVE STATISTICS OF THE INDEPENDENT VARIABLES

**Table 4. 3: Corporate Governance Characteristics**

Variable	Min	Max	Mean	SD	Skewness	Kurtosis
BSIZE	5	13	8.28	1.97	0.42	2.25
BDINDI	0.28	1	0.69	0.17	-0.40	2.47
OWNSTR	0.41	0.93	0.76	0.12	-0.90	3.26
ACEFF	1	6	4.38	1.07	-0.34	3.37

*Source: Field work, 2003-2014*

**Table 4. 4: Summary Statistics of the Independent Variables Pre IFRS Mandate**

Variable	Min	Max	Mean	SD	Skewness	Kurtosis
BSIZE	5	12	8.37	1.60	-0.21	2.53
BDINDI	0.37	0.88	0.65	0.14	-0.15	2.17
OWNSTR	0.41	0.93	0.74	0.12	-0.79	3.09
ACEFF	1	6	4.35	1.14	-0.32	3.44

*Source: Field work, 2003-2014*

**Table 4. 5: Summary Statistics of the Independent Variables Post IFRS Mandate**

Variable	Min	Max	Mean	SD	Skewness	Kurtosis
BFSIZE	5	13	8.22	2.21	0.62	2.06
BDINDI	0.28	1	0.72	0.18	-0.68	2.74
OWNSTR	0.46	0.93	0.77	0.12	-1.01	3.46
ACEFF	2	6	4.39	1.03	-0.35	3.22

*Source: Field work, 2003-2014*

Table 4.3 presents the descriptive statistics of the independent variables over the entire period of the study while Tables 4.4 and 4.5 shows the descriptive statistics in terms of pre and post mandatory IFRS adoption in Ghana respectively.

#### **4.4.1.1 Board size (BFSIZE)**

On average board size (BFSIZE) for the entire period is 8 members (mean=8.28), with a minimum of 5 and a maximum of 13 directors. This is similar to the findings of Aboagye-Otchere (2014) who found the board size among listed firms to be 9 directors with a minimum of 4 and maximum of 13 directors. This is also in tandem with findings of Niami et al. (2010) and Yatim et al. (2006) of Malaysia who obtained an average board size of 8 directors (mean = 7.6 and 7.5 respectively). Nonetheless, the number of directors in the post and pre mandatory adoption period are not too different which means that mandatory IFRS adoption did not affect the size of the board. Since the average board size did not reduce as preferred by agency theorist, it could be deduced that firms rather attracted individuals with the necessary resource and skills set through incentives unto the board anytime members resigned; in effect supporting the resource dependency theory.

#### **4.4.1.2 Board Independence (BDINDI)**

In relation to the proportion of non-executive directors that make up the board (BDINDI) the descriptive statistics shows that for the entire duration of the study, on average, 69 percent of the directors on the board in the sample were non-executive members. This result is higher than that which was obtained by Yaacob & Che-Ahmad (2012) and Mohammad-Nor et al., (2010) which is 40 percent and 43 percent but the same as that of Aboagye-Otchere (2014) which is 69 percent.

However, while the mean of the proportion of non-executive directors on the board was 65 percent before the mandatory IFRS adoption, it increased to 73 percent after the mandatory IFRS adoption and is also in line with the GSE listing requirement of at least one-third of the board should consist of non-executive directors.

#### **4.4.1.3 Ownership Structure (OWNSTR)**

The descriptive statistics shows that 76 percent of shareholders hold shares in excess of 5 percent of the total shareholdings of the companies. The lowest percentage was 41 percent and the highest was 93 percent. However, in a study conducted by Afify (2009) on sampled firms in Egypt, it was found that the average percentage of shareholders who held shares in excess of 5 percent was 74 percent, with a minimum of 1 percent and a maximum of 100 percent. In terms of pre and post mandatory IFRS adoption periods, the average holders of shares in excess of 5 percent was 74 percent and 77 percent respectively. This increase is as a result of investors (both existing and prospective) purchasing more of firms' share as a result of the benefits such as high quality financial information, reduced cost of capital and increased transparency levels in their disclosure which is associated with the adoption of IFRS.

#### 4.4.1.4 Audit Committee Effectiveness (ACEFF)

Again the descriptive statistics shows that the effectiveness of the audit committee for the sampled firms averaged at 4.38 out of 7 maximum score of effectiveness. This number suggest that the average audit committee effectiveness score of the sample firms is about 63 percent of the maximum score of effectiveness. This is similar to the findings of Rochmah & Ghazali (2012) who obtained 67 percent of maximum score of audit committee effectiveness. In comparing the pre and post mandatory IFRS adoption period in relation to audit committee effectiveness, an average of 4.35 representing 62 percent for the former period and 4.39 representing 63 percent for the latter period. This means that there has been a marginal improvement in the level of effectiveness of the audit committee after the mandatory adoption of IFRS. This could be explained by the intuition that listed firms complied with SEC-Ghana's regulation of having an audit committee's and reporting its operations annually which resulted in the effectiveness of the audit committee. Hence, the influence of the mandatory IFRS on audit committee effectiveness was minimal.

**Table 4. 6: Summary Statistics of Lagged Corporate Governance Characteristics**

Variable	Min	Max	Mean	SD	Skewness	Kurtosis
LGBSIZE	5	13	8.28	1.93	0.32	2.24
LGBDINDI	0.28	1	0.69	0.17	-0.38	2.50
LGOWNSTR	0.41	0.93	0.76	0.12	-0.90	3.21
LGACEFF	1	6	4.38	1.09	-0.34	3.35

*Source: Field work, 2003-2014*

**Table 4. 7: Summary Statistics of the Lagged Independent Variables Pre IFRS Mandate**

Variable	Min	Max	Mean	SD	Skewness	Kurtosis
LGBSIZE	5	12	8.37	1.60	-0.26	2.77
LGBDINDI	0.37	0.88	0.65	0.14	-0.26	2.20
LGOWNSTR	0.41	0.93	0.74	0.12	-0.69	2.95
LGACEFF	1	6	4.35	1.14	-0.38	3.46

*Source: Field work, 2003-2014*

**Table 4. 8: Summary Statistics of the Lagged Independent Variables Post IFRS Mandate**

Variable	Min	Max	Mean	SD	Skewness	Kurtosis
LGBSIZE	5	13	8.22	2.11	0.51	2.00
LGBDINDI	0.28	1	0.72	0.18	-0.55	2.65
LGOWNSTR	0.46	0.93	0.77	0.12	-1.03	3.40
LGACEFF	2	6	4.39	1.03	-0.30	3.16

*Source: Field work, 2003-2014*

In lagging the independent variables, the descriptive statistics did not show much difference from the unlagged variable but for very minimal changes in the descriptive values for skewness and kurtosis. The minimum, maximum, mean, standard deviation (SD) values for the lagged; board size (LGBSIZE), board independence (LGBDINDI), ownership structure (LGOWNSTR), and audit committee effectiveness (LGACEFF) remained similar to the unlagged variables. Also the descriptive statistics for the independent variable under the sub-groups of pre and post IFRS observed similar behaviour as the independent variables over the entire period of the study. Nonetheless, the influence of some of the corporate governance characteristics on a firm's ARL seems to have instantaneous effect but not futuristic effect as argued by literature (Habib, 2015) hence the similar results in pre and post IFRS.

Furthermore, in terms of normality of the data, Haniffa and Hudaib (2006) posit that data is said to be normally distributed if the standard skewness is within  $\pm 1.96$  and standard kurtosis of  $\pm 3$ . The descriptive statistic hence indicates that the data is not normally distributed since the highest kurtosis of 3.4 (LGOWNSTR) falls beyond the acceptable range of  $\pm 3$ . Hence the study focused on using non-parametric analysis.

#### 4.5 DESCRIPTIVE STATISTICS OF THE CONTROL VARIABLES

**Table 4. 9: Descriptive Statistics of Control Variables**

Variable	No.	Min	Max	Mean	SD	Skewness	Kurtosis
LEV	168	-12.73	55.08	2.23	4.99	7.41	77.62
PROF	168	0	1	0.69	0.46	-0.85	1.73
CSIZE	168	12.47	19.64	16.35	1.93	-0.07	1.7
ITYPE	168	1	5	2.42	1.59	0.44	1.50
ATYPE	168	0	1	0.81	0.39	-1.57	3.48

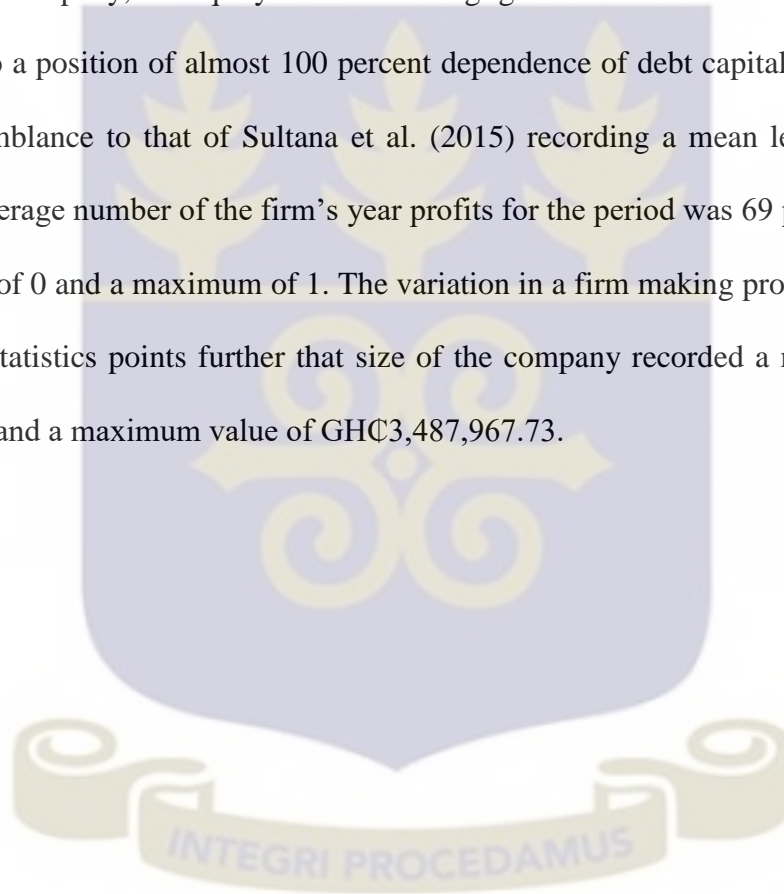
*Source: Field work, 2003-2014*

Five variables were controlled for in the study and Table 4.9 presents a descriptive statistics of the variables. The descriptive statistics is first pooled for the entire period in Table 4.9 and subsequently grouped into pre and post mandatory IFRS adoption periods in Tables 4.7 and 4.8 respectively.

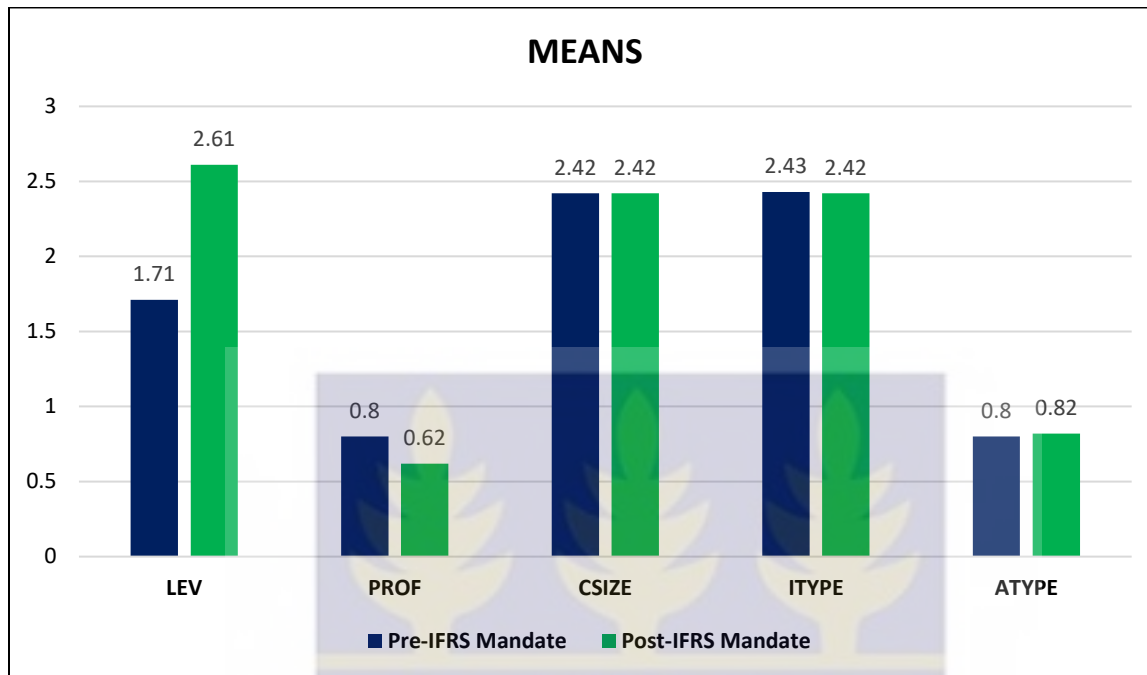
The descriptive statistics indicates that for the entire period 81percent of the sampled firms engaged the services of the Big 4 in the audit of their financial statements. This appears to be higher than findings of Afify (2009) who realised that on 40 percent of firms engaged the Big 4. Also Habib (2015) found out that only 34 percent of the firms in China were audited by the Big 4 during the period of 2003 and 2011. This indicates that in Ghana a greater majority of sampled

firms rely on the Big 4 for annual audits of financial statements. However, it was noticed that in pre and post mandatory adoption period it was 80 percent and 82 percent respectively.

The descriptive statistics indicate that leverage has a mean of 2.23 from a minimum of -12.73 to a maximum of 55.08 implying reliance of sample firms on debt capital than on equity. Despite this average over the study period, some firms financed their operations with solely equity financing however, for one company, the equity was almost negligible as a result of consisted losses over time which led to a position of almost 100 percent dependence of debt capital. These results are however in resemblance to that of Sultana et al. (2015) recording a mean leverage of 2.23 in Malaysia. The average number of the firm's year profits for the period was 69 percent out of 168, with a minimum of 0 and a maximum of 1. The variation in a firm making profit was 46 percent. The descriptive statistics points further that size of the company recorded a minimum value of GHC260,406.72 and a maximum value of GHC3,487,967.73.



**Figure 4. 2: Descriptive Statistics of the Control Variables Pre and Post IFRS Mandate**



*Source: Field work, 2003-2014*

From the firms that were sampled, it was quite obvious that the leverage position increased in the post-IFRS mandate period than in the pre-IFRS mandate period by 0.9 whereas the number period that firms sampled recorded profits reduced by 18 percent. This could be as a result of the somehow new recognition, measurement and valuation methods suggest by the new regulation (IFRS). Nonetheless, the size of the companies did not seem to change at all over the two periods under comparison. Also none of the companies switched industry after the mandatory adoption of IFRS meanwhile after the mandatory adoption of IFRS, 2 percent more of the sampled firms engaged the BIG4 audit firms.

## 4.5 TEST OF NORMALITY

### 4.5.1 Shapiro-Wilk test of normality

From the descriptive statistics, that is, the skewness and kurtosis of the pooled ARL for the entire period and that of the pre and post IFRS mandate, it was necessary to conduct a normality test to confirm the normality of the dependent variable in order to justify the method of analysis, either a parametric or a non-parametric. As did in Ntow-Gyamfi et al., (2015) the Shapiro-Wilk test of normality was conducted and the result is displayed in Table 4.6 below.

**Table 4. 10: Shapiro-Wilk W test for normality of ARL**

Shapiro-Wilk W test					
Variable	Obs	W	V	z	Prob>z
ARL	168	0.53404	59.766	9.328	0.00000

*Source: Field work, 2003-2014*

From statistics displayed above it is evident that the data is not normally distributed ( $p$ -value < 0.05). The test for normality rejected the null hypothesis that the ARL is normal. Due to the fact that the data breaches the assumption of normality under a parametric approach, the study employs the use of a non-parametric approach by performing the Wilcoxon-Mann-Whitney test which is the non-parametric counterpart to the Z or  $t$  test.

### 4.5 STATISTICAL TEST OF ARL PRE AND POST IFRS MANDATE.

Univariate analysis was conducted in the form of Wilcoxon-Mann-Whitney test to ascertain whether there is a statistical difference between the means of the dependent variable (ARL) pre and post IFRS mandate. The results displayed in Table 4.6 below provides the descriptive statistics that compares the mean of pre and post IFRS mandatory adoption.

**Table 4. 11: Wilcoxon Rank-Sum (Mann-Whitney) test of Mean ARL for Pre and Post IFRS Mandate**

Group	Obs	Rank Sum	Expected
Pre IFRS Mandate	70	5597	5915
Post IFRS Mandate	98	8599	8281
Combined	168	14196	14196

Z=-1.024                      Prob>/z/ = 0.3059

*Source: Field work, 2003-2014*

The results suggest that there is no statistically significant difference between the mean ARL pre IFRS mandate and post IFRS mandate ( $z = -1.024$ ,  $p = 0.3059$ ). The results show that, even though the post IFRS mandate mean ARL is higher than those of the pre IFRS mandate the difference is not statistically significant.

#### **4.5 CORRELATION ANALYSIS**

The study undertook a correlation analysis in order to test the presence of multicollinearity among the dependent, independent and control variables. The Pearson correlation bivariate analysis was undertaken to check the presence of a possible linear relationship between two or more predictor variables. Gujarati (2003) posits that an 0.8 or less degree of correlation between the two or more explanatory variables increase the reliance on regression output hence used as the benchmark to detect multicollinearity among the predictor variables.

Similarly, Belsley (1980) advocates that multicollinearity may be a problem when the correlation amongst the independent variables is 0.90 or above. Nevertheless, Emery (1982) considered correlation more than 0.80 to be problematic.

Table 4.12 show the Pearson correlation coefficients for the association between the ARL and all the independent and control variables included in the study.

The results show that ARL has a positive relationship with the IFRS mandate, type of auditor, size of company and board independence. Of these variables that have a positive relationship with ARL, board independence is significant at 99 percent while IFRS mandate is significant at 90 percent. However, the ARL is significantly negatively associated with board size and profitability at 99 percent and 95 percent respectively.

The study found highest correlation between ARL and profitability (41 percent) and followed by board independence (33 percent) while the lowest correlation was realized between ARL and ownership structure (1.65 percent)

In relation to the correlation between the independent variables the study found the highest correlation between the size of the board and the effectiveness of the audit committee (54percent). Again, there is also a high correlation between the type of auditor and the type of industry a firm finds itself. Even though these correlations seem high, they all fall within the threshold of 80 percent as posited by Gujarati (2003). Therefore, according to the test of Pearson's correlations, it can be resolved that multicollinearity does not appear to be a present in the model since all the correlations are found to be significantly below the proposed threshold.

**Table 4. 12: Pearson’s Correlation Matrix of Audit Report Lag and All Independent and Control Variables.**

	ARL	ifrs	bdsiz	bdindi	Ownstr	aceff	atype	lev	prof	itype	csize
ARL	1.0000										
ifrs	0.1493*	1.0000									
bdsiz	-0.1717**	-0.0377	1.0000								
bdindi	0.3399***	0.1977**	0.0390	1.0000							
ownstr	-0.0165	0.0954	0.1739**	0.0526	1.0000						
aceff	-0.0421	0.0187	0.5462***	0.2128***	-0.0755	1.0000					
atype	0.0619	0.0205	-0.1159	0.0923	-0.1729**	0.0168	1.0000				
lev	-0.0328	0.0891	0.3294***	0.0665	0.0795	0.1440*	-0.1870**	1.0000			
prof	-0.4184***	-0.1904**	0.0768	-0.2905***	0.2263***	0.0293	0.0424	-0.0899	1.0000		
itype	-0.1806	-0.0000	0.0643	-0.2511***	-0.0111	-0.0642	-0.4506***	0.1650**	0.2023***	1.0000	
csize	0.0293	0.1533**	0.3435***	0.1781**	-0.0442	0.3143***	-0.0713	0.1454*	-0.1581*	-0.0596	1.0000

\*\*\*, \*\* and \* means correlation is significant at the 1%, 5% and 10% level, respectively.

*Source: Field work, 2003-2014*

In addition to the Pearson's correlations the variance inflation factor (VIF) was computed as a robustness test to confirm the presence or absence of multicollinearity among the variables.

From Table 4.13 below shows the VIF which indicates all the independent variables have values below 1.9 which is within the acceptable range of 10 hence means that multicollinearity is not a major problem (Mela., 2002). Therefore, these results validate that of the Pearson's correlation coefficient.

**Table 4. 13: Variance Inflation Factor (VIF) Independent and Control Variables**

Variable	VIF	1/VIF
bdsiz	1.79	0.558396
aceff	1.64	0.610277
itype	1.52	0.659613
atype	1.43	0.698506
bdindi	1.30	0.766783
prof	1.29	0.777940
csize	1.24	0.809586
ownstr	1.23	0.814723
lev	1.19	0.840357
Mean VIF	1.40	

*Source: Field work, 2003-2014*

#### **4.6 MULTIPLE REGRESSION ASSUMPTION VERIFICATION**

In the chapter relating to methodology it was stated emphatically the panel regression technique was adopted as a result of the nature of the data. However, panel regression technique assumptions need to be verified and satisfied in order not to generate misleading result thereafter similar conclusions. These assumptions which includes the fact that; there is no multicollinearity among

the explanatory variables, there is no heteroskedastic and autocorrelation among the predictor variables, sufficient number of cases and normality in the distribution of the predictor variables data set. The study tested the assumption for multicollinearity in the correlation analysis discussed above.

#### **4.6.1 Heteroscedasticity and Autocorrelation Check**

The Breusch-Pagan test as suggested by Gujarati (2003) was conducted to test the presence of heteroscedasticity among the predictor variables while the Wooldridge test for autocorrelation was also conducted. The Breusch-Pagan test indicated the presence of heteroscedasticity ( $p < 0.05$ ) and the Wooldridge test for autocorrelation also revealed the presence of autocorrelation ( $p < 0.05$ ) among the predictor variable data set.

#### **4.6.2 Sample Size Check**

As posited by Field (2005), the number of cases needed for regression should be, at least, 10 cases of data for each predictor in the model. Also, Green (1991), asserted that the smallest sample should be  $104 + k$ , where  $k$  is the number of explanatory variables. In this regard the sample size for the study taking in consideration ten explanatory variables should be 100 as per Field (2005) and 114 as per Greene (1991). Based on Greene (1991) and Field (2005) the sample size for the study meets the assumption of sufficient sample size for regression analysis.

#### **4.6.3 Normality Check for Independent and Control Variables.**

The normality of the distribution of the independent and control variables was checked, by conducting the Shapiro-Wilk test for normal data and the result displayed in Table 4.14 below. The Table also reports  $V$  which are median values and when they are one or close to one, they represent samples from normal population. Large values indicate non-normality. Tables 4.14

shows that with the exception of profitability, all the other variables' figures are under "V" column are above one. This advocates that majority of the data are not normal and as such the pooled OLS regression model is inappropriate.

**Table 4. 14: Shapiro-Wilk W Test for Normal Data**

Variable	W	V	z	Prob>z
bdsiz	0.97048	3.728	2.998	0.00136
aceff	0.97746	2.891	2.421	0.00773
itype	0.96604	4.356	3.356	0.00040
atype	0.96784	4.124	3.231	0.00062
bdindi	0.97363	3.382	2.779	0.00273
prof	0.99079	4.124	3.231	0.00062
csiz	0.93956	7.752	4.670	0.00000
ownstr	0.92150	10.069	5.267	0.00000
lev	0.41497	75.038	9.847	0.00000

*Source: Field work, 2003-2014*

Based on the various checks on the assumption of panel regression techniques, it is evident that not all the assumptions have been met hence the pooled OLS regression will not be appropriate. Hence the Panel Corrected Standard Errors (PCSEs) which also corrects for heteroscedasticity and autocorrelation was adopted for the study.

#### **4.7 EMPIRICAL RESULT OF THE PCSEs REGRESSION**

This section presents the panel data regression results. A positive coefficient from the regression results indicates that a change in the independent variable will lead to an increase in the ARL whilst a negative one will lead to a reduction in the ARL. Specifically, section 4.7.1 reports the

PCSEs regression results of the test hypotheses two to five. This is followed by the results of the lagged effect of corporate governance variables on **ARL** post IFRS mandate.

The measure used to indicate the fitness of the model is the R-Square which refers to the proportion of the sample variation that is explained by the predictors. Nonetheless, the adjusted R-square is a more suitable indicator of a fit model since it takes into consideration the number of explanatory variables in the model. From the first regression model, the R-square and adjusted R-square reported was 32 percent and 28 percent respectively while the second model reported an R-square and adjusted R-square of 16 percent and 11 percent respectively.

This means that the first regression model explains about 28 percent of the variation in ARL, which is higher than the adjusted R-square reported by Wei (2012). Knechel *et al.* (2001) reported an adjusted R-square of 12 percent and Habib (2015) reported an adjusted R-square of 9 percent. Meanwhile some studies also report an adjusted R-square of more than 20 percent (Ettredge *et al.*, 2006; Munsif *et al.*, 2012). However, low R-square in regression are not unusual especially in social science studies (Wooldridge, 2003). This does not mean that the model is not fit since it did not exceed the 50 percent benchmark.

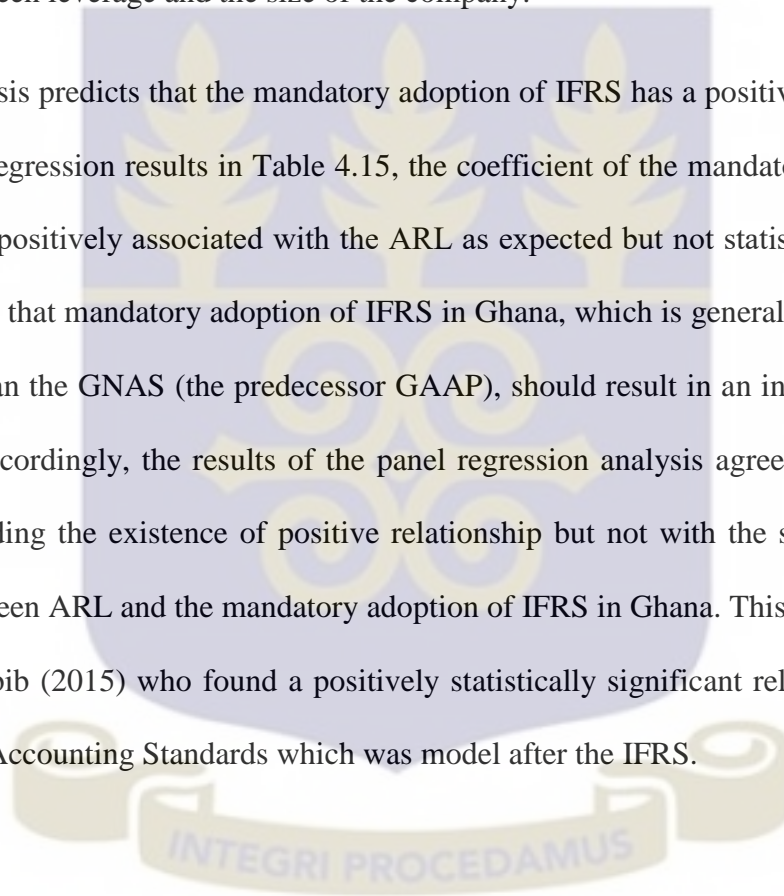
#### **4.7.1 PCSEs Regression Model- ARL, IFRS Mandate and Corporate Governance**

The results indicate that there is a statistically significant positive association between the ARL and board independence ( $p \leq 0.05$ ), Likewise, the results specify that there is positive association between the ARL and ownership structure, IFRS and type of auditor, however, this relationship is not statistically significant. On the other hand, the results show that ARL has a statistically significant negative relationship with the size of the board ( $p \leq 0.10$ ). Though audit committee

effectiveness was also negatively related to ARL, the result found it not to be statistically significant.

Concerning the firm's characteristics, the study discovered that there was a negative association between the ARL and profitability and industry type. However, it was only profitability that was statistically significant ( $p \leq 0.05$ ). The study also found a statistically insignificant positive relationship between leverage and the size of the company.

The first hypothesis predicts that the mandatory adoption of IFRS has a positive association with ARL. From the regression results in Table 4.15, the coefficient of the mandatory IFRS adoption measure 'ifrs' is positively associated with the ARL as expected but not statistically significant. This result shows that mandatory adoption of IFRS in Ghana, which is generally thought to be of higher quality than the GNAS (the predecessor GAAP), should result in an increase in the audit reporting lag. Accordingly, the results of the panel regression analysis agree with the research hypothesis regarding the existence of positive relationship but not with the significance of the relationship between ARL and the mandatory adoption of IFRS in Ghana. This is in contrast with finding from Habib (2015) who found a positively statistically significant relationship between ARL and China Accounting Standards which was model after the IFRS.



**Table 4. 15: PCSEs Regression Model 1 Results**

<b>Variables</b>	<b>Coefficient</b>	<b>z-value</b>
lev	0.38	0.47
prof	-34.62	-2.16**
csize	2.76	0.73
itype	-4.05	-0.77
atype	13.31	0.80
bdsiz	-7.28	-1.90*
bdindi	110.48	2.31**
ownstr	28.87	0.37
ifrs	3.86	0.37
aceff	-0.02	-0.00
_cons	50.302	0.41
R-Square	0.3239	
Estimated Covariances	14	
EstimatedAutocorrelations	14	
Observations	165	
Wald Chi-square (15.48)	P > Chi-square	0.1154

\*\* and \* denote significance is significant at the 5% and 10% levels, respectively.

*Source: Field work, 2003-2014*

#### **4.7.2 PCSEs Regression Model – ARL, IFRS mandate and Lagged Corporate Governance**

##### **Variables**

As noted earlier, the study sought to determine the effect of lagged corporate governance variables on ARL post IFRS mandate in Ghana. As a result, the individual corporate governance variables were lagged by a year to determine the relationship between the ARL and the lagged variables post IFRS mandate. As evidenced by the results of the second model, the relationship between the ARL and the lagged corporate governance variables mimicked the initial result reported in section 4.7.1 above. IFRS mandate still remain statistically and positively insignificant. The only lagged corporate governance variable which showed a significant association with ARL is board independence.

**Table 4. 16: PCSEs Regression Model 2 Results**

Variables	Coefficient	z-value
lev	0.73	0.91
prof	-38.83	-2.30**
csize	0.85	0.25
itype	-0.93	-0.19
lgatype	27.59	2.09**
lgbdsiz	-5.39	-1.41
lgbdindi	135.20	2.44**
lgownstr	77.43	0.95
ifrs	5.78	0.49
lgaceff	-3.96	-0.78
_cons	3.95	0.03
R-Square	0.17	
Estimated Covariances	14	
Estimated Autocorrelations	1	
Observations	152	
Wald Chi-square (19.70)	P > Chi-square	0.0323

\*\* and \* denote significance is significant at the 5% and 10% levels, respectively.

*Source: Field work, 2003-2014*

#### **4.8 DISCUSSION OF FINDINGS FROM REGRESSION**

In order to measure the trend in ARL post IFRS and the effect of corporate governance on ARL post IFRS mandate among sampled listed firms in Ghana, a variety of statistical tests and analyses, including descriptive statistics, correlation analysis and a panel corrected standard errors regression analysis were conducted. The results of the individual statistical analyses are discussed and conclusions drawn from the findings bearing in mind the theoretical framework adopted for the study.

#### **4.8.1 ARL and IFRS Mandate**

From the regression results in Table 4.15, the coefficient of the mandatory IFRS adoption measure ‘ifrs’ is not significant but positively associated with ARL. This result is in contrast with findings from Habib (2015) who found statistically significant positive association between China Accounting Standards and ARL. This contrast is not surprising since majority of firms on China’s stock market are audited by local audit firm unlike Ghana where the Big4 dominate the audit market. As a result of the dominance of the local audit firms, China maintains a strong regulatory environment in order to control the activities of these local firms. However, in Ghana, the Big4 audit firms dominate the audit market hence the regulatory environment is weak (Assenso-Okofu et al., 2011) since it is assumed that their international partners tend to regulate their activities in order to protect their image.

#### **4.8.2 ARL and Corporate Governance Variables post IFRS mandate**

The regression analysis suggests that board size is significantly negatively associated with the ARL, which is in contrast with the findings of Habib (2015). This means that an increase in size of the board will cause a reduction in the ARL. This reason for this inverse relationship could be the appointment of members with broader set of qualities such as knowledge and “connections” who impact tends to cause a decrease in ARL (DeZoort et al., 2003).

Board independence is found to be positively associated with ARL and significant at 5 percent. This is an indication that a high proportion of non-executive directors on the board increase the delay in the release of the audit financial information to the market. This finding is in contrast with studies of Afify (2009) and Habib (2015). The finding is also not supported by the resource dependency theory. The reason ascribed to the positive relationship could be as a result of conflicts among executive and non-executive members on the board. In the sense that group cohesion is

important for the effective execution of any task (Powell & Anisc, 1997) which includes making decisions during an audit. Hence were conflict exist between executive and non-executive directors (who are perceived to be resourceful) time is spent resolving such issues which in effect results in a delay in the release of financial statements.

Although ownership structure is positively related to audit report lag, the nature of the relationship appears to be insignificant. That is, pressure from large dominant shareholders result in an insignificant increase in audit report lag. Per the findings therefore, it could be concluded that the ownership structure of a company does not have a significant influence on audit report lag. In a related study, Afify (2009) and Leventis et al. (2005) found a negative yet insignificant relationship between ownership structure and ARL while Abdelsalam & El-Masry (2008) found a significantly negative relationship with ARL.

Audit committee effectiveness is expected to have a significant negative influence on audit report lag. The result suggests the audit committee's effectiveness in reducing the ARL of the companies in Ghana is not significant. The insignificant relationship between audit committee effectiveness and audit report lag may also be interpreted as the existence of audit committee in Ghana is just for window dressing but is ineffective in enhancing the release of audited financial reports on time. This finding is in contrast with DeZoort et al. (2002) who found that there is a link between audit committee effectiveness and financial reporting quality.

#### **4.8.3 ARL and Control Variables**

The results show that; the type of auditor is positively associated with ARL. This means that firms that are audited by the Big4 are likely to have 13 days more in the delay of their annual financial statements that those audited by the non-Big4. This reason for this result appears to be the

protection of image. In order to protect their image in a weak regulatory environment, the Big4 appears to be approaching the audit of listed firms in a substantive way so as to mitigate and reduce its audit risk to an acceptable level hence the delay in releasing audited financial statement to the public. Nonetheless contrary to literature from Afify, (2009), Sultana et al., (2015) and Habib (2015), this study reports a statistically insignificant positive relationship between the choice of a Big4 audit firm and ARL

The positive coefficient of leverage shown in the regression results is contrary to the directionality that was predicted in the hypothesis. The reason for this relationship appears be caused by external auditors. Since high leverage ratios signals the probability of corporate failure which increases the chances of law suit against external auditor, they may spend more time to improve their defence against a possible law suit hence increasing ARL. Apart from the existing relationship with the ARL it is also not significant as found in a study by Sultana et al (2015), Hossain & Taylor (1998). Prior studies found a statistically positive significant relationship with ARL (Ettredge et al., 2006; Lee et al., 2008).

Profitability was hypothesised to have a negative relationship with ARL. This result from the regression confirms the hypothesis showing a statistically negatively significant relationship with ARL. This means that firm are likely to report audited financial statement to the public in a timely manner when they record profits in a given year. This result is in agreement with that found by Afify (2009) and in contrast with Alkhatib & Majri (2012).

The results also revealed that firm size, which is a natural logarithm of the end of year book value of total assets has a positive relationship with the ARL indicating that the bigger the firm by longer higher its ARL. This can be attributed to the relatively large inventory volumes held by big firms

as against small firms. Auditors are likely to spend more time auditing a large firm's inventory hence causing a delay in the release of financial statement. Nevertheless, this finding is insignificant in the determination of ARL among listed firms in Ghana. The studies that revealed significant relationships are (Bamber et al., 1993), (Carey & Simnett, 1995), (Leventis & Weetman, 2004), (Owusu-Ansah & Leventis, 2006) (Al-Ajmi, 2008) while those with insignificant relationships include (Al-Ghanem & Hegazy, 2011) and (Owusu-Ansah, 2000).

The regression result in Table 4.15 shows that industry type is statistically insignificantly and negatively associated with the ARL. This result somewhat confirms the result of Alkhatib & Majri (2012) who reported a no relationship between type of industry and ARL. However, Afify (2009) found a negatively statistically significant relationship between industry type and ARL.

#### **4.8.4 ARL and Lagged Corporate Governance Variables post IFRS mandate**

Findings reported in Table 4.16, are based on contemporaneous corporate governance characteristics. Researchers argue vehemently that the effect of a corporate governance mechanism or feature is not immediate but influences forthcoming financial accounting events, transactions and reports (Zahra & Pearce, 1989; Dalton *et al.*, 1999). Thus, tests were executed again using lagged data for all four corporate governance features (e.g *lgbdindi* as opposite to *bdindi*) as predictors of contemporaneous audit report lag. Results of the re-run regression using the lagged corporate governance data (i.e., Model 2) is reported in Table 4.16. At a glance it seems the results reported in Table 4.16, closely mirrors the main findings in Table 4.15, nonetheless, they are not the same.

In relation to ARL and lagged board size (i.e., *lgbdsize*), the regression result shows that there is still a negative relationship between the dependent and the independent variable. However, it is

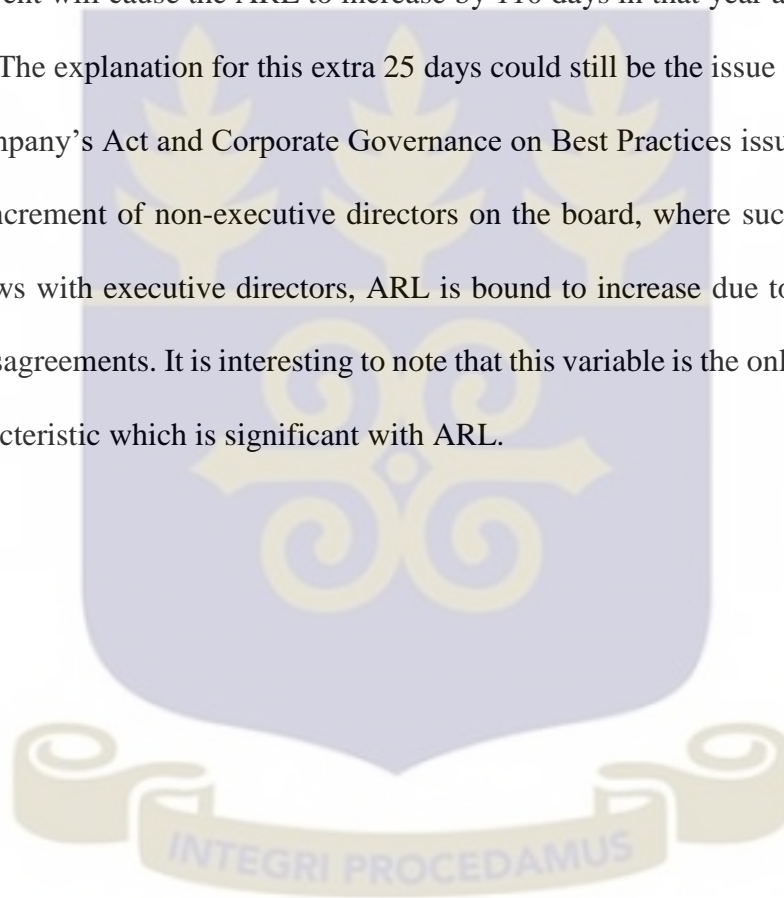
interesting to note that the influence of the board members after a year of serving on the board reduce hence causing the board to be ineffective. From the results, the estimated coefficient for board size in Table 4.15 is -7.28 while that of lagged board size is -5.39. This means that in the year of constituting an average of 8-member board, listed firms are likely to reduce ARL by 7 days as against 5 days in the second year. The reason for this could be the free rider effect associated with large board size. By this, new board members after influencing the corporate entity in a particular year become adamant hence total output of the board begins to diminish. Another key reason supported by resource dependency theorist could be the claim that boards are composed based on the resources and skills set that members bring on board. Hence after board members have given off such resources and connections in a particular year, they have little or nothing to offer in the subsequent year hence resulting in the declining output of the board subsequently. This notwithstanding, the finding is not significant in the determination of factors affecting ARL among listed firms in Ghana.

Lagged audit committee effectiveness (i.e. *lgaceff*) and audit committee effectiveness were both negatively related with ARL. Nevertheless, the influence of an effective audit committee is much realized in the subsequent year of operation than in the current year. This is so because the interaction between the audit committee and the external auditors happen mostly after the end of the financial year. Hence implementation from such discussions affect the subsequent year but not the year under audit. However, from the results, this variable is not significantly related to ARL.

The influence of shareholder holding shares in excess 5 percent (blockholders) is much realized in terms of increasing ARL in the subsequent year than in a current year. Owing to the fact that blockholders have superior access to inside information from managers for their individual benefits they show less interest in making sure annual reports are released on time (Owusu-Ansah

& Leventis 2006). In subsequent years the delay is bound to increase since managers will only satisfy them with such insider information again in order to minimize the possible pressure in the release of annual reports on time. Nonetheless, this variable is also not significantly associated with ARL.

In terms of lagged board independence and ARL, an increase in the number of non-executive directors in a current will cause the ARL to increase by 110 days in that year and 135 days in the subsequent year. The explanation for this extra 25 days could still be the issue of group cohesion. Even though Company's Act and Corporate Governance on Best Practices issued by SEC-Ghana encourages the increment of non-executive directors on the board, where such members do not share similar views with executive directors, ARL is bound to increase due to the time spent in resolving such disagreements. It is interesting to note that this variable is the only lagged corporate governance characteristic which is significant with ARL.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 INTRODUCTION

This study sought to investigate the relationship between the audit report lag, mandatory IFRS adoption and corporate governance in Ghana. This chapter summarizes the key findings of the study, presents the conclusions based on the findings and further makes recommendations on how to improve ARL post IFRS mandate and also through specific corporate governance characteristics.

#### 5.2 SUMMARY OF FINDINGS

The significant findings from this study on the audit report lag, IFRS mandate and Corporate Governance are highlighted below.

##### 5.2.1 ARL and Change in Accounting Regulation (IFRS mandate)

The average number of days taken by listed firms to release audited annual reports in Ghana was found to be 109 days. This indicates that relatively, shareholders stand the chance of receiving information concerning firms' performance later than required by the SEC-Ghana and GSE. Nonetheless there seems to be a decreasing trend in the later years of the study (i.e. 2013 to 2014) after a consistent increase in ARL from 2007 to 2012. This increment in ARL from 2007 is largely associated with the mandatory adoption of IFRS in that year. It is also worth noting that the overall post IFRS mandate ARL is higher than the pre IFRS mandate ARL. Whereas the average the ARL for the pooled sampled firms before the IFRS mandate was about 96 days it increased to about 118 days after the IFRS mandate. This finding is consistent with prior study that found out that ARL increased after a change in accounting regulation (Habib, 2015). Despite this difference in days in

relation to ARL between the pre and post IFRS mandate, this difference is not statistically significant in Ghana. Similarly, the results from the regression analysis showed that the mandatory adoption of IFRS is not statistically significant with ARL which is in contrast to result found by Habib (2015) who found a statistical significant positive relationship between ARL and China Accounting Standards (CAS, modelled after IFRS).

### **5.2.2 ARL and Corporate Governance Variables post IFRS mandate**

As endorsed by the Ghana's Company Act and the Corporate Governance Guidelines on Best Practices issued by SEC-Ghana, the number of board members of listed firms in Ghana connotes their effectiveness and efficiency in governing the firm to optimal performance in relation to the timeliness in the release of audited financial report. The descriptive statistics indicates that the overall average board size of 8 members is also slightly consistent with the results of prior studies in Ghana by Kyereboah-Coleman & Biekpe, (2006), Aboagye-Otchere et al, (2014). The multivariate analysis suggests that board size is significantly negatively associated with the ARL which goes on to reiterate why Ghana's Company Code and the Corporate Governance Guidelines on Best Practices stresses on this corporate governance characteristic.

In relation to board independence the situation appears to have improved after the mandatory IFRS adoption, where the average of the proportion of non-executive directors on the board was 65 percent before the mandatory IFRS adoption increased to 73 percent after the mandatory IFRS adoption. From the descriptive statistics that 69 percent of the directors of the board are non-executive directors which supports SEC-Ghana's guidelines. The multivariate analysis found a statistically positive association between independence of the board and ARL. This finding does not lean towards the neither agency theory nor resource dependency theory since ARL increases as the board becomes more independent.

Furthermore, ownership structure though had a positive relationship with ARL was not significant just like audit committee effectiveness which also had a negative relationship with ARL.

### **5.2.3 ARL and Control Variables**

Profitability had a negative effect on the timely release of annual reports among listed firms in Ghana. This is quite understandable since firms are mostly in a haste to get the public aware of the “good news” (profits) other than “bad news” (losses) hence leading to a reduction in the number of days it takes them to release such news. On the other hand, though leverage, size of the company and type of auditor have a positive relationship with ARL they are insignificant. Industry type also established a negative insignificant relationship with ARL.

### **5.2.4 ARL and Lagged Corporate Governance Variables post IFRS mandate**

In view of the argument that effect of corporate governance mechanisms is not immediately felt in the current financial accounting events and reports but in the subsequent ones, it was necessary to lag the corporate governance variables in order to ascertain their effect on ARL. To this end, only lagged board independence had a significant relationship with ARL out of the four corporate governance variable used in this study. Lagged board size maintained a negative relationship but became statistically insignificant with ARL. Lagged ownership structure, lagged audit committee effectiveness maintained their insignificantly positive and negative relationship respectively with ARL.

### **5.2.5 ARL and Control Variables**

Similar to the results discussed in section 5.2.3, profitability maintained its positively significant relationship with contemporaneous audit report lag. While leverage and size of the company have a positive relationship with ARL they are insignificant. Also industry type also established a

negative insignificant relationship with ARL. However, type of auditor seemed to have a positively significant relationship with ARL after the corporate governance variables were lagged.

### 5.3 CONCLUSION

This study examines whether the change in accounting regulation i.e. mandatory adoption of IFRS and corporate governance features are associated with the timeliness of financial reporting (i.e., audit report lag) by Ghanaian publicly listed firms. It also offers statistical evidence for a number of variables which determine or influence ARL. Overall, the study makes the following conclusions;

Companies listed on the GSE do not release audited annual reports on time. However, the trend seemed to be worsen after the adoption of IFRS in 2007 and later started recovering in 2013. This could be attributed to the learning curve that firms needed to go through. IFRS mandatory adoption did not affect ARL, even though listed firms issued audited annual report later post IFRS mandate. This finding is in contrast with prior study in China (Habib, 2015).

Also, the size of the board significantly influences the timeliness of the release of audited annual reports to stakeholders. This means that as firms focus on releasing audited annual reports on time they need to increase their board size in order to be successful. This finding lends to the resource dependence theorists who assert that larger board sizes enable the appointment of members with a broader set of qualities such as expertise, experience, knowledge and connections (DeZoort *et al.*, 2003). Similarly, the analysis points that a more independent board causes an increase in audit report lag significantly. Both the Agency theory and the Resource Dependency theory does not seem to explain this finding. Intuitively the effectiveness of the board comes as a result of team cohesion hence even though non-executive directors bring on board expertise and experience,

where there are diverse opinions among members, this could in effect cause delay in the release of annual report.

Other corporate governance variables like ownership structure and audit committee effectiveness did not significantly affect the ARL of listed firms in Ghana. It also became very evident that where firms make profit in a particular financial year, shareholders are certain to receive audited annual report which contains the “good news” earlier than usual.

Finally, evidence from the analysis prove that the type of auditor, that is the engagement of a BIG4, a more independent board in a current year will cause the late release of audited financial statement in the forthcoming year. This could be associated to the necessary time need to be consumed by the BIG4 to understand the firm’s business environment.

#### **5.4 CONTRIBUTION TO LITERATURE**

This study contributes to existing literature in the determinants of ARL in the following way: that the difference in ARL pre and post IFRS is not statistically significant thus the change in accounting regulation does not significantly affect the timely release of financial statements to the public in the Ghanaian market.

Again the presence of more non-executive directors on the board as suggested by the SEC-Ghana and the Company’s Act will affect the release of financial information of firms by increasing the ARL. More so, the independence of the board does not only contribute to the instantaneous delay of annual audited financial statements in a current year but also in the subsequent year. Furthermore, several studies on ARL have been hinged on the agency theory however this study illustrates with empirical evidence how resource dependency theory could be used to explain the relationship between ARL, IFRS mandate and corporate governance characteristics.

Furthermore, in determining the influence of corporate governance characteristics on ARL, the study contributes to literature by incorporating a composite variable for audit committee effectiveness which was not included in similar studies conducted by Habib (2015) and Afify (2009).

## 5.5 RECOMMENDATIONS

Based on the findings and conclusions the study recommends the following:

- 1) Since board size, board independence and profitability has significant instantaneous influence on ARL, the study recommend that firms in Ghana increase the size of their boards in the bid to reduce the waiting period for which shareholder get access to audited financial statements in the current year. However, increasing the board size, care should be taken not to make majority non-executive directors so as to improve the boards efficiency and effectiveness. Management, based on the findings, haste to report “good news” (profitability) to stakeholders faster than “bad news” (losses), should come up with strategies to always record profits at the end of each financial year since that would help get information to shareholders faster.
- 2) Government and regulatory bodies like the SEC-Ghana should put in stringent mechanisms that will urge firms to release audited financial statement within the stipulated period endorsed in the listing rules since the change in accounting regulation doesn't seem to have any significant influence of ARL. Also the Companies Act and Corporate Governance Guidelines on Best Practices issued by SEC-Ghana should be revised since clearly some pieces of information they provide do not meet the current and dynamic business environment in Ghana.

- 3) It is also recommended that academic and business researchers should investigate why some corporate governance variables used in this study did not have a significant influence on ARL through a qualitative study.
- 4) Finally, it is recommended that future studies should concentrate on the relationship between the change in accounting regulation and ARL among sub-Saharan countries since literature in the developing economies appears to be scant in this area of study.



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