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OWNERSHIP STRUCTURE AND AUDIT REPORT LAG IN NIGERIAN MANUFACTURING COMPANIES

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Abstract

This study examined the effect of ownership structure on audit report lag in Nigerian manufacturing companies. Ex Post Facto research design was adopted. Data for the study were extracted from audited annual reports and accounts of the sampled manufacturing companies in Nigeria. The Ordinary Least Squares Regression (OLS) was used in the method of data analysis and the results revealed that institutional ownership has a negative and significant effect on audit report lag in Nigerian manufacturing companies at 5% level of significance. In accordance with the study's findings, which suggest that a rise in institutional ownership minimizes the audit report lag. As a result, the report urges Nigerian businesses to have more institutional ownership.

Keywords: Ownership structure, Institutional ownership and Audit report lag

INTRODUCTION

Investors and other stakeholders can have independent assurance from the audit that financial statements presented by management are accurate and in compliance with generally accepted accounting principles (Scott & Gist, 2013). The external audit function serves as a bridge between those who prepare financial information (management) and those who use it, which makes it essential to the corporate governance structure (stakeholders). External auditing is therefore a crucial monitoring tool since it enhances the reliability of financial statements, helps investors make investment decisions, and gives them confidence in the company's financial health (Brown, Beekes, & Verhoeven, 2011).

Users of financial information can have complete confidence thanks to a timely audit report (CheAhmad & Abidin, 2008). Delivering audit reports takes longer in developing nations like Nigeria and Ghana due to a variety of reasons, including auditor characteristics (Muhammad, 2020), corporate governance processes, and non-corporate governance business characteristics. The timeliness of financial reports is the main concern of users of financial statements because it increases their trustworthiness when making decisions. When financial statements are made timely available to investors, their confidence is increased; nevertheless, the utility of this information may be constrained. In order to boost investors' trust in the caliber of their investment selections, a strong reporting system is necessary for capital markets to operate smoothly and successfully. Since different users require timely financial information, information in the financial statements is expected to be excellent before it is received by those consumers. As a result, timely information is one of the notable characteristics of financial reporting, which translates into outstanding judgment regarding the state of an enterprise.

By enhancing security pricing and reducing insider trading, timely information preserves its economic worth and reduces information asymmetry. The possibility of misleading information being spread about the company is likewise reduced by timely financial information. Investors must give accountants' knowledge more weight due to the independent audit's vital role. In today's markets, investors rely on accountants to give them more information on a reliable basis. Financial information that is timely allows decision-making stakeholders to use the information before it is lost in value. This specifically refers to a shorter time frame than the end of the client's accounting year within which an independent auditor submits the audited annual report. Further empirical research is required to identify the characteristics of audit trails that reduce audit latency, given the critical role external auditors play in guaranteeing timely audit report delivery.

The company's operations are significantly impacted by the ownership structure, which is the distribution of ownership claims between insiders (management) and outsiders (investors who have no direct involvement in company management). Institutional ownership, foreign ownership, managerial ownership, concentrated ownership, etc. are all parts of the ownership structure. Each of these ownership types has a stake in the company and as such wants to meet their own demands, which can only be met by the number of shares held by the company in the form of control. While managerial ownership refers to management (directors) who hold a percentage of the company's shares, are internal, and actively participate in corporate decisions of the firm, other investors are external parties who have no direct involvement in the management of the firm but who do so in a way that effectively influences corporate governance. This influential group of investors has the capacity to influence corporate management decisions both directly through ownership and indirectly through share trading (Gillan and Starks, 2003). Although there is a dearth

of earlier research on ownership structure and audit report lag in industrialized economies, to the best of our knowledge, Nigeria has none. This research aims to determine if ownership structure can significantly affect an organization's timely audit report, hence reducing the risk of audit report lag for corporate entities. This study aims to accomplish this by analyzing the impact of ownership structure on the audit report lag of a subset of Nigerian listed industrial enterprises.

Ownership structure is a crucial component of governance, especially when there is a lax legal framework. Similar to many other developing nations, Nigeria's legal framework does not adequately safeguard investors, hence it is common for huge shareholders to hold control over businesses. Similar to how different types of controlling shareholders have varied investing philosophies and objectives, they also exercise their control over investee companies in different ways that have an impact on the financial operations of those companies. If not immediately addressed, the emphasis on ownership structure without taking into account each type of owner independently and the role they each performed in ensuring accurate financial reports of the organization could result in false inferences. This study therefore, evaluates the effect of institutional ownership and audit report lag of manufacturing companies in Nigeria.

CONCEPTUAL FRAMEWORK

Ownership Structure

The percentage of equity capital held by several parties, or ownership structure (Manna, Sahu, & Gupta, 2016). The ownership structure refers to the percentage of stock that shareholders own or hold. It establishes the ownership status and voting rights of shareholders (Tariq & Naveed, 2016). Ownership concentration is a metric used to assess the ability of shareholders to influence managerial actions and decisions (Thomsen & Pedersen, 2000). It is commonly known that the corporate governance system differs depending on the corporate sector's ownership structure. There are businesses at one end of the spectrum where ownership is distributed among small shareholders and control is primarily held by managers (Berle & Means, 1932). In nations with "common law" legal systems, such as the USA and the UK, the scattered shareholding is evident (La Porta, Florencio, Shliefer, & Vishny, 2004). Whereas the Anglo-Saxon corporate governance system relies on complex legislative safeguards to protect investors from manager appropriation. The primary method of control is typically through voting on significant internal and external corporate decisions, such as the election of the board of directors and mergers and liquidations (Easterbrook & Fischel, 1983). As a result, the main problem with the Anglo-Saxon corporate governance system is the enforcement of voting rights. While on the other end of the scale, there are businesses where significant investors have a concentrated ownership interest; in these businesses, management follow the directives of the controlling shareholder(s) or debtor (s). In nations where it is expensive for small investors to exercise their control and cash flow rights, concentrated ownership is frequent.

Institutional Ownership

Institutional ownership refers to corporate organizations' ownership interests in another entity. Institutional investors are businesses that pool resources and put them into businesses. This group may consist of financial institutions other than banks, mutual funds, provident funds, insurance providers, etc (Manna, Sahu, & Gupta, 2016). Given that institutional ownership appears to actively participate in influencing corporate decisions, understanding how it influences or affects firms' audit report latency and performance is crucial. Institutional investors have an impact on business decisions in

areas including corporate governance and control, increasing industry capacity, and enhancing a firm's investment competitiveness (Fung & Tsai, 2012). Due to their size and potential difficulty in liquidating their interests, institutional investors with significant holdings have greater resources and motivations to watch enterprises (Shleifer & Vishny, 1986). Institutional investors may immediately sell their holdings and move on when the number of shares they hold falls.

Banks and insurance companies are examples of institutional investors who face self-interest risks and are less likely to closely monitor the operations of the businesses in which they have invested. Pressure-sensitive institutional investors are those people. On the other side, pressure-averse institutional investors are businesses like investment firms that have no vested interest in a company's operations but are more inclined to keep an eye on those operations. According to studies by Almazan, Hartzell, and Starks (2005) and Chen, Bin, and Chen (2011), institutional investors with pressure-insensitive shareholdings exercise more restraint when making decisions about executive compensation and acquisitions, respectively. Institutional investors are significant players in financial markets in affluent jurisdictions all over the world. Investment in institutional ownership funds has grown in popularity in recent years (Kurawa, Alhassan, Anwarul Islam, & Haque, 2021). Because it offers a level of diversification that is challenging to replicate through indirect investing, this type of investment is appealing to both private and institutional investors. It also gives individual investors broad market access because some securities offerings are only available to institutional investors (Khafid & Arief, 2017). Because they operate on a wider scale and benefit from economies of scale in terms of dealing, custody, and transfer of securities, they are cost-effective. They also deal with liquidity problems, which are frequent in markets with high levels of concentration.

Investor activism has long been the subject of discussion regarding its benefits and drawbacks for businesses. Some contend that because investors lack the essential expertise to oversee the business, they shouldn't be given such a high priority in a company's corporate governance. Others, however, think that institutional investors must play a significant role in upgrading corporate governance processes, despite their belief that doing so would distract them from their core business (Affan, Rosidi, & Purwanti, 2017). Before deciding to actively participate in a company's activities, an institutional investor should consider a few aspects, according to Bamahros and Wan-Hussin (2015). To assess whether the cost of obtaining information to actively engage in the company's decision-making is worth it, they must conduct a cost-benefit analysis.

Audit Report Lag

The time between the conclusion of the fiscal year covered by the report and the date of the report is known as the audit report lag (ARL). The speed with which audited financial statements are provided to users may be impacted by how long it takes auditors to complete an audit (Almosa & Alabbas, 2008). Additionally, a lengthy audit report delay would cause current and future shareholders to delay their share transactions (Hashim 2017). According to Abdillah, Mardijuwono, and Habiburrochman (2019), sustaining the usefulness of such information depends on the financial statements' timeliness. To protect investors and lower risk, timeliness ensures the integrity, fairness, and efficiency of the capital markets. Investors have been particularly interested in the audit report lag since it affects their choice to purchase shares of a certain company. Therefore, research has examined the various causes of audit report lag in both developed and developing nations. According to the research of Asuzu et al. (2021), management ownership has an impact on the audit report lag of listed manufacturing enterprises in Nigeria.

Review of Empirical Studies

The relationship between leverage, ownership structure, and firm performance was examined by Ali et al. in 2022. The study used panel data analysis with information from 70 companies listed on the Pakistan Stock Exchange from 2010 to 2016. This study discovered a negative but statistically significant association between leverage and both ROA and ROE and business performance. The performance of listed companies on the Pakistan Stock Exchange has a similar negative but statistically significant relationship with managerial ownership, institutional ownership, and family ownership. In Nigerian quoted firms, Aigienohuwa and Ezejiofor (2021) investigated the connection between leverage and the punctuality of financial reports. Ex Post Facto research methodology was used for the investigation. The study's sample includes 145 Nigerian listed businesses. With the help of the e-view 9.0 program, the panel data regression technique was utilized to estimate the association between the variables. The study's findings showed that, at a 5% level of significance, there is no correlation between company leverage and the promptness of financial disclosures in Nigerian traded companies. The relationship between the factors affecting the timeliness of financial reporting by Nigerian deposit money institutions was determined by Oraka, Okoye, and Ezeiofor in 2019. With the help of SPSS version 20.0, regression analysis was used to examine the hypotheses that were developed. The study found that factors such as bank size, age, audit firm type, and bank performance have an impact on how quickly financial reporting is completed in Nigerian banks. Ogabo, Ogar, and Nuipoko (2021) looked at how ownership structure affected the performance of the FTSE 350 firms in the UK during the fiscal years of 2008 to 2018. With the help of descriptive statistics, a correlation matrix, and regression analysis, a panel data set made up of 48 companies and 432 observations was examined. The findings showed that at managerial ownership levels above 5%, there is a considerable positive influence on business performance without any entrenchment effect. The regression analysis revealed that while the percentage of women on the board as a control variable improves businesses' performance, the percentage of independent directors on the board as a control variable worsens firms' performance. The moderating effect of political stability on the connection between ownership identities and company performance was examined by Al-Janadi (2021) in the Middle Eastern countries (i.e., the Arab World). 11,999 observations were collected across 11 Middle Eastern countries for the study, which collected 105 correlations from 46 prior investigations. The results demonstrate a favorable association between most ownership identities and business performance, including institutional ownership, government ownership, inside ownership, and family ownership. Another intriguing study is how ownership identities, such as institutional ownership, foreign ownership, and inside ownership, play a significant role in controlling companies and, ultimately, company performance in nations with political instability. Since this industry is one of those with booming investment in Indonesia, Saleh, Zahirdin, and Octaviani (2017) looked at the effect of ownership structure on corporate performance of property and real estate public businesses. Institutional investors and managerial ownership served as proxies for the ownership structure, and economic value added (EVA) and tobin's q were employed as proxies for business performance. Purposive sampling of 240 observations from the years 2010 to 2015 was used in this investigation. The link between the variables was ascertained using the fixed and random effect panel data model. The results suggest that managerial ownership has a partially significant impact on the performance of enterprises in this industry, whereas the size of the company, the institutional investor, and the debt ratio are crucial in explaining firm performance.

METHODOLOGY

Research Design

The Ex-Post Facto research design was used for this investigation. This design was chosen because the necessary data was primarily utilized to establish the relationship between the independent and dependent variables, as well as to gather deeper knowledge of the study and to gain a better understanding of it.

All the one hundred and eighty (180) manufacturing enterprises listed on the Nigerian Exchange Group (NGX) as of December 31, 2020, made up the study's population. The sample size of this study constitutes the thirty (30) selected manufacturing companies listed in the Nigerian Exchange Group. Purposive sampling technique was used to select the thirty (30) companies listed on the Nigerian Exchange Group. This technique was used due to the fact that some of the data needed for the study variables were not currently available in the annual reports of all the listed companies, hence, the use of the selected companies.

Method of Data Collection

The Nigerian Exchange Group (NGX) websites, corporate annual reports, and accounts of particular listed manufacturing firms on the NGX and GSE, respectively, were used to collect the data. Data were gathered from 2011 to 2020 over a ten-year period. For the analysis of this study, data gathered from the NGX websites and the annual reports and accounts of a few selected listed industrial enterprises were provided. Institutional ownership and audit report lag are included in the data.

Model Specification

The study model is in the following form:

$Y = \beta_o + \beta_1 X_1 + \mu$

Where:

Y = Audit report lag (dependent variable)

X = Ownership Structure (independent Variable)

β_0 = constant term (intercept)

β_1 = Coefficients of tax revenue

μ = Error term (stochastic term)

Explicitly, the equation can be defined as:

Audit report lag = f (Ownership structure) + μ

Representing the equations with the variables of the construct, hence the equations below are formulated:

$ARL_{it} = \beta_0 + \beta_1 ISO_{it} + \varepsilon_{it}$ ---------------------------------..(i)

Where;

ARL= Audit Report Lag
ISO = Institutional Ownership
i = is the selected manufacturing companies
t = Time dimension of the variant
ε = error term
β_0 = the intercept coefficient
β_1 = the slope coefficients
Also, $\beta_1 < 0$

Method of Data Analysis

The regression and descriptive statistical methods were the main analytical techniques used in this study. The first method is the statistical techniques in which the descriptive and correlation analysis were employed.

All the estimating procedures were programmed using E-views version 9.0

Decision Rules

If the *p*-value is less than or equal to the significance level, we would reject the null hypothesis (i.e., *p*-value $\leq \alpha$, then reject H_o). Otherwise, we would not reject the null hypothesis.

ANALYSIS OF RESULTS

H_{01}: Institutional ownership has no significant effect on audit report lag of manufacturing firms in Nigeria.

Table 1:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.145[a]	.210	.080	1498.71805

a. Predictors: (Constant), ISO

The Table 1 above shows that the coefficient of determination is R^2 = 0.210 and the Adjusted R^2 is 0.180. Adjusted R^2 = 0.180 implies that 18% of the variations in audit report lag of the sampled manufacturing companies in Nigeria is influenced by joint interaction of institutional ownership (ISO), while about 0.82% of the variance is explained by other factors not captured in the study model.

Table 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14470033.653	1	14470033.653	6.442	.012[b]
	Residual	669354425.293	298	2246155.790		
	Total	683824458.947	299			

a. Dependent Variable: ARL
b. Predictors: (Constant), ISO

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3113.229	170.670		18.241	.000
	ISO	-3.922	1.545	-.145	-2.538	.012

a. Dependent Variable: ARL

Tables 2 and 3 show that the regression equation or model that was used to predict audit report lag is significant at 5% level of significance as (p-value = 0.012). Based on the coefficients value of -3.922 and t-value of -2.538, with p-value of 0.012, was found to have a negative effect and this effect was also statistically significant as its p-value is less than 0.05 value. This result, therefore suggests that we should accept the alternate hypothesis, which stated that institutional ownership has a significant effect on audit report lag of manufacturing companies in Nigeria.

Conclusion

This study examined the effect of ownership structure on audit report lag (ARL). Specifically, the study ascertains the extent to which managerial ownership, institutional ownership and foreign ownership affect audit report lag. The Ordinary Least Squares Regression (OLS) was used in the method of data analysis and the results revealed that institutional ownership (ISO) has a negative coefficient and significant at 5%. This implies that increase in the presence of institutional ownership reduces the audit report lag. Therefore, the null hypothesis that Institutional Ownership has no significant effect on audit report lag of manufacturing firms in Nigeria is rejected. Our finding is at variance with that of Farhana, Rahmawaty and Basri (2019) which showed that institutional ownership do not significantly influence audit report lag. However, our finding is in agreement with Hashim (2017) which revealed that institutional ownership affects audit report lag. The finding is also supported by Khaldoon (2020) who found that on average, institutional ownership is significantly related to ARL. According to the study's findings, ownership structure offers a crucial lens through which to view the motivations for timely corporate reporting.

In accordance with the study's findings, which suggest that a rise in institutional ownership minimizes the audit report lag. As a result, the report urges Nigerian businesses to have more institutional ownership.

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