
LATE CULTURE OF CORPORATE FINANCIAL REPORTING IN NIGERIA

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ABSTRACT

The objective of the study is to assess the culture of financial reporting practice amongst publicly quoted companies in Nigeria. Data were obtained from the annual reports and accounts of Seventy Five (75) companies quoted on the Nigerian Stock Exchange from 2000 to 2010. We discovered that there were more cases of late corporate financial reporting (539 cases) with mean time lag of 339 days than early corporate financial reporting (286 cases) with mean time lag (150 days) with a difference of 189 days, which was statistically significant at the 5 % level. Late corporate financial reporting was prevalent in Nigeria as in New Zealand (Curtis, 1976) unlike in Turkey (Turel, 2010) and Malaysia (Hashim & Abdul-Rahman, 2011). To ensure early corporate financial reporting, it was recommended that the supervisory authorities should make the mandatory financial reporting time to be 90 days after the balance sheet dates for all public companies. Stiffer penalties (in terms of monetary fines) should be imposed against non-compliance.

Keywords: Early Reporters, Late Reporters And Corporate Financial Reporting.

JEL Classifications: G3, G21, G24.

1. INTRODUCTION

Most countries have legal and regulatory frameworks for timely corporate financial reporting. There are provisions on the number of days after the financial year-end of companies when they are expected to file their reports with the appropriate regulatory agencies. In the United Kingdom, public companies are grouped into three categories of filers based on the market value of their equity. There are non-accelerated filers, which are public companies with market value of equity of less than \$75million. They are expected to file their audited annual accounts within 90days (3months) after the end of their financial years. The second category includes those public companies with market value of equity between \$75million and \$700million. They are called accelerated filers, which are expected to file their adjusted annual reports within 75 days (2 ^{1/2} months) after the end of their financial years. The third category involves those public companies with the market value of equity of over \$700 million. They are called large accelerated filers and are expected to file their audited annual reports within 60 days (2 months) after the end of their financial years. Thus, public companies in the United Kingdom have between two and three months after their financial year-end to file their audited annual report and accounts for public disclosure (United Kingdom, Securities and Exchange Commission [UK, SEC], 2002).

In the United States, audited annual financial statements are required for public disclosure within 90days (3 months) after the end of the financial year of the reporting entity

while quarterly reports should be within 45 days (US, SEC, Regulations). In Turkey, the audited annual financial reports are expected to be published within 70 days (10 weeks or 2^{1/3} months) after the end of the accounting period of the reporting entity; and for the half-yearly reports, 42 days (6 weeks or 1^{1/2} months) for non-banks and 56 days (8 weeks or 2 months) for banks (Turkey, CMB Communique XI, No1, clause 48).

There are many legal provisions and regulatory frameworks on the public disclosure of audited annual financial reports in Nigeria. From the Companies and Allied Matter Act (2004), the audited annual financial statements of a public company are expected to be made up to a date not exceeding nine months (270 days) previous to the date of the annual general meeting (*Section 345 (1) of CAMA, 2004*). The connotative meaning of the date being referred to in this provision is the balance sheet date or a day at the financial year-end of the public company. If the date of annual general meeting is considered as the date of public disclosure, it then follows that this provision of CAMA (2004) permits a period of nine (9) months (270 days) for public disclosure of audited annual financial statements of public companies. A daily default fine of Five Hundred Naira (₦500) payable by a director of an erring public company, which fails to lay and deliver audited annual accounts is provided by *Section 346 (1) of CAMA (2004)*. This provision on personal liability is quite loose and may not be deterrent enough to procure necessary compliance anticipated by the law. First, the requirement of “a director” in the paragraph is ambiguous knowing that a public company usually has more than one director. If the rule of “*primus inter pares*” (first among equal) is applied, then “a director” in that context may mean the managing director. Whether managing director or any director, in practice, the director will not pay for his personal purse but from the company’s purse. And what does a daily default of Five Hundred Naira (₦500) to a big public company? If that is the case, then a public company with a lawless Board of Directors might want to exploit this loophole of the law to their economic advantage. They can decide to buy one year reporting delay by being ready to pay a sum of One hundred and Eighty Thousand Naira (₦180,000). Perhaps the sanction might have been more meaningful if the provision specifies “every director” instead of “a director” as this would provide for joint liability of all the directors of a public company and the daily default fine of Five Hundred Naira (₦500) per director. This would amount to a reasonable sum of money depending on the board size.

For banks and other financial institutions operating in Nigeria, there are specific regulations for their timely financial reporting as contained in two extant laws relating to financial sector of Nigeria economy. *Section 27(1) of Banks and Other Financial Institutions Act (2003)* provides a period of 120 days (4 months) after the financial year-end within which the audited financial reports of banks and other financial institutions are expected to be published, laid and delivered. The Central Bank of Nigeria also provides for a period of 150 days after the end of the financial year for banks to publish and submit their audited financial reports (CBN guidelines, 2004). The *Company Income Tax Acts (2007)* in Nigeria provides for 180 days (6 months) after the end of the financial year for public company to file her audited annual reports with the Federal Board of Inland Revenue (*Sec.41 (3) (a) of CITA, 2007*); failure to do so attracts a default fine of Twenty-Five thousand Naira (₦25,000.00) in the first month of breach and Ten Thousand Naira (₦10,000.00) for every other month if the breach continues.

From the foregoing, it is obvious that there is “conflict in law” in terms of the legal provisions for timely financial reporting in Nigeria. This, however, can be neatly resolved as follows. Public companies can be classified into two, the financial and non-financial companies. The provision of *Banks and other Financial Institutions Act (BOFIA, 2003)* and *CBN Guidelines (2004)* are applicable to financial companies. In that case the provision of 120 days after the end of the financial year of the reporting financial company as contained in (*BOFIA, 2003*) becomes the critical requirement for timely reporting. This is because if this provision is fulfilled, then the *CBN Guidelines (2004)* of 150 days, the *CITA (2007)* provision of 180 days,

and *CAMA (2004)* of 270 days would be easily met. Hence, we can conclude that the financial companies have 120 days (4 months) after the end of their financial years to publish their audited annual reports. The non-financial public companies have to comply with the provisions of *CITA (2007)* and *CAMA (2004)*, which specify 180 days (6 months) and 270 days (9 months) respectively. In this case, the provision of *CITA (2007)* of 180 days (6 months) becomes critical for timely financial reporting. This is because once *CITA (2007)*'s provision is met, it would be easy to meet *CAMA (2004)*'s provision. Hence, the non-financial public companies in Nigeria have 180 days (6 months) after the end of their financial years to publish their audited annual reports. Thus, financial public companies have four (4) months while non-financial public companies have six (6) months after the end of their financial years to publish their audited annual reports.

From the foregoing we may ask how early or late are the public companies in financial reporting in Nigeria? The main objective of this study is to determine the proportions of early and late financial reporters among publicly listed companies in Nigeria. The hypothesis for testing is that there is no statistical significance difference between the proportions of early and late financial reporters among publicly listed companies in Nigeria.

2. REVIEW OF LITERATURE

This section presents a review of the timeliness of corporate financial reporting in some developed and developing countries. Courtis (1976) examined four corporate attributes (company age, number of shareholders, number of pages of annual report and industry) and reporting delay of New Zealand listed companies. The only type of industry was significantly associated with auditors' signature lag. Companies in the fuel and energy and finance industries were fast reporters while those in the mining, exploration and service industries were slow reporters. The sampled companies took almost four (4) months after their financial year-end to report to shareholders as opposed to the three (3) months required by law. This was attributed to lack of punctuality of the New Zealand auditors to certify their clients' company accounts. An inverse relationship between the reporting lag and level of profitability was observed.

Bonson-Ponte, Flores, and Escobar-Rodriguez (2008) analysed the factors that determine delays in the signing of audit reports on the Spanish continuous markets for the period of four years (2002-2005). They observe that regulatory pressure and company size affect the audit delay while audit firm, qualifications or regulatory change show no significant relationships with audit delay. They also observe that the big companies and those that are internally regulated and are subject to regulatory pressures sign the audit report in fewer days than others.

Turel (2010) observed timeliness of financial reporting in emerging capital markets. He noted that timely financial reporting is an essential ingredient for a well-functioning capital market. He examined the extent of timeliness of financial reporting and the impacts of both company-specific and audit related factors on timeliness of financial reporting in Turkey. Using 211 non-financial companies listed on the Istanbul Stock Exchange, more than 50% of the companies release their financial statements before the regulatory deadline and those that prepare consolidated financial statements release their report much earlier than those that prepare separate financial statements.

Akle (2011) explored the relationship between corporate governance and financial reporting timeliness for 83 companies listed on the Egyptian Stock Exchange for the period from 1998 to 2007. The study reveals that the average lag period of financial reporting is on the decline from 134 days in 1998 to 72 days in 2007. This shows the companies' commitment to the disclosure and transparency principles as one of the company's governance principles. There is also a decrease in reporting lag in the financial firms from 80 days in 1998 to 63 days in 2007

and the non-financial firms from 154 days in 1998 to 79 days in 2007. The industry type, company size, gearing, leverage, earnings quality, and audit opinion were regressed on the timeliness of corporate financial reporting. Using the F-test statistic, the results show that there are significant differences between the average of delaying period before and after applying the international corporate governance principles.

Yacob and Che-Ahmed (2012) examined the effect of IFRS complexity on audit delay in Malaysia. It was observed that the adoption of FRS 138, a standard on intangible assets, poses challenge to auditors to the extent that they require more time and efforts to audit because of the problems of definition, measurement and recognition. Using 2,440 firm –year observations, the panel regression analysis show a significant positive relationship between FRS 138 adoption and audit delay. Hence, IFRS complexity takes the auditor more time to audit. The results show that the length of audit report period ranges from 20days to 364days and an average audit delay of 101days with a standard deviation of 25days. However, the mean delay is lower than the minimum requirement of Bursa Malaysia of four months.

Fagbemi and Uadiale (2011) examined the determinants of timeliness of the audit report in Nigeria using Forty-Five listed public companies. Audit report lag, which is the natural log of the time interval between the balance sheet date and the audit report date, is regressed on six independent variables, which are the six corporate characteristics, namely the audit firm size, the business complexity, leverage, profitability, international affiliation and the company size. The study used data for one year, 2007.

The results showed that the majority of the companies (76%) was audited by the big-4 audit firms. The average number of days (time lag- days) for which financial reports were ready after the year-end is 141 days with the earliest audit report time of 31days after the year-end. However, there appears strong significant negative relationship between the timeliness of financial reports and the companies' affiliation with foreign companies, company size, audit firm size, and the firm profitability. However, the positive relationships between the timeliness of financial reports and business complexity appeared to be statistically insignificant. The negative relationship between the timeliness of financial reports and business leverages appears to be statistically insignificant. However, only the company size and firm profitability (measured by sign of dividend payment) impact significantly on timeliness of financial statements in Nigeria. Other factors like business complexity, size of the audit firm, companies' affiliation to a foreign entity and business leverage were found to have insignificant impact on the timeliness of financial reporting of quoted companies in Nigeria.

Oladipupo (2011) examined the empirical relationships and the impacts of some firm characteristics on the audit delay in Nigeria. Using a cross-sectional data for 2008 from 40 listed public companies in Nigeria, the author considered the impact of firm attributes such as company size (measured by total assets) and industry type; capital structure attributes such as total equity and total debt; and firm performance measured by profit after tax; and auditors' attributes such as audit fees and international linkage of audit firms on the audit delay measured as the time lag between the end of the financial year and the date of the auditors' report. The results of the univariate and multivariate analyses showed that the audit delay ranges from 16 to 284 days while it takes approximately four months on the average for the companies to get their annual reports and accounts audited after the end of their financial years. The international linkages of audit firms have a positive significant impact on the audit delay. This shows that firms that engage audit firms with international linkages or affiliations tend to complete audit of their annual accounts faster than those firms that engage audit firms without international linkages. The need for longitudinal study of audit delay behaviour was identified to understand the trend and make useful policy on how to reduce the high audit delay.

Ibadin (2011, unpublished) examined audit delay determinants in some Nigerian quoted companies. Using cross-sectional data from 150 listed companies for the years 2007 and

2008, the study revealed that it took an average of 118 days in 2007 and 121 days in 2008 for the companies to get their financial statements audited after the end of their fiscal-years. These audit reports lags vary from 115 days in 2007 and 119 days in 2008 in the financial sector to 121 days in 2007 and 119 days in 2008 in the non-financial sector. When these audit reports lags were compared with statutory reporting deadlines the companies were not reporting late at all because the Company Income Tax Act (1990) provides for 180 days, the Banks and other Financial Institutions Act (2003) provides for 150 days, after the financial year-end of the companies to file their audited annual reports and accounts. This scenario is possible because the average situation has been observed. The situation might have been different if the sample had been stratified into the early and late reporters. Even if this is done on a sectoral basis, we can then have four sub-samples and this may present somewhat different results from what the author observed.

3. MATERIALS AND METHOD

The data used in this study were collected from the audited annual reports and accounts of 75 companies out of 214 quoted companies on the Nigeria Stock Exchange as at 31st December 2010. The sample size represents 35% of the population. These were companies that could get complete data for the 11 years period. The data, which were extracted from the audited annual reports and accounts, include the balance sheet dates, the audit report dates and the annual general meeting dates of these sampled quoted companies. The proportions of early and late financial reporters among publicly listed companies in Nigeria were analyzed using frequency distribution. The hypothesis, which states that there is a statistical significance difference between the proportions of early and late financial reporters among publicly listed companies in Nigeria, was tested using test of differences in means of audit lags, reporting lags, and total time lags of early and late financial reporters at 5% level of significance.

4. RESULTS

The objective of this study is to determine the proportions of early and late financial reporters. The hypothesis is to assess whether the difference between the proportions of the early and late financial reports is statistically significant. Going by the extant laws in Nigeria, public companies in the financial sector have just four months (120 days) while those in non-financial sector have six months (180 days) after their financial-year end to publish their audited annual reports and accounts. With these criteria, we can easily identify the early and late financial reporters amongst the public companies or the number of times the public companies under study make early or late publication of their audited annual reports and accounts accordingly to their sectors.

Table 1 shows the frequency distribution of the nature of financial reporters in the two sectors. Three categories of reporters were identified: the early reporters, the late reporters and the just-in-time (JIT) reporters. The early reporters are those public companies that publish their audited annual reports and accounts before the allowable statutory periods. The late reporters are those companies that publish after the allowable statutory periods while the just-in-time reporters are companies that publish exactly at the allowable statutory periods.

We can observe that there are more cases of late reporting (50) than early reporting and just-in-time reporting (25) on the aggregate and on sectoral basis. It can therefore be deduced that there is a late culture of financial reporting amongst public companies in Nigeria. As to whether the difference in the meantime lags of the early and late reporters is statistically significant, which is the hypothesis for testing in this study, we have decided to add the Just-in-time reporters as early reporters to have two groups. The results of the t-test analysis, $t(280) = -$

10.172; $p < 0.05$ shows that there are more late reporters than the early reporters and the difference in their mean time lags is statistically significant at 5% level (see Table 2).

Table 1: Frequency Distribution of Financial Reporters

Sectors of the Economy	Reporting Status			Total
	Early Reporters	Late Reporters	Just -in-Time Reporters	
Financial Sector	1	12	0	13
Non-Financial Sector	24	37	1	62
Total	25	49	1	75

Source: Authors (2012)

Table 2: T-Test- Testing of Difference in the means of Time Lags of Early and Late Reporters

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 Early Reporters	149.60	281	22.330	1.332
Late Reporters	338.84	281	312.705	18.654

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 Early Reporters & Late Reporters	281	.075	.212

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Early Reporters - Late Reporters	-189.231	311.835	18.603	-225.850	-152.613	-10.172	280	.000

5. DISCUSSIONS

The objective of the study is to examine the early and late financial reporting practices in Nigeria. This is to determine the legal responsibility of corporate entities in Nigeria. In Nigeria, the financial firms have four months (120 days) while the non-financial firms have six months (180 days) after the end of their financial years to publish their audited annual reports and accounts. The study shows that there are more cases of late reporters (544 cases) than early and just-in-time reporters (281 cases) both in the aggregate and sectoral basis. The difference in the meantime lags between the early reporters and late reporters is statistically significant at the 5 % level. Hence, there is a late financial reporting culture among public companies in Nigeria. This shows a degree of corporate legal irresponsibility. It has also been observed in New Zealand that it took four months after balance sheet dates to report to shareholders as opposed to the three months required by law (Curtis, 1976). The situation is different in Turkey, where

more than 50% of public companies release their financial statement before the regulatory deadline (Turel, 2010). The mean delay in financial reporting is less than the minimum requirements of four months reporting deadline for financial firms and six months for non-financial firms in Malaysia (Yaacob and Che-Ahmad, 2012 and Hashim and Abdul-Rahman, 2011).

The culture of late corporate financial reporting is observed amongst public companies. There is observed statistically significance difference in the late reporting behaviour between the financial firms and non-financial firms due to regulatory differences. It could well be that the late culture of financial reporting is regulatory-induced as the regulations allow a long period between four and six months after the balance sheet dates for the public companies to publish their audited financial reports. The fact that the financial firms report much earlier than the non-financial firms are due to the slight regulatory pressure in the financial sector. It is expected that with appropriate increased regulatory pressures by way of reducing mandatory reporting deadline to a maximum of 90 days (3 months) after the balance sheet dates for all public companies regardless of their sectors, they will all adjust and comply appropriately. To sustain this expected momentum, the extant provisions for default fines and sanctions should be reviewed upward to justify the economic realities of the present time and capable of serving as a deterrent to possible erring public companies, which may wish to buy time to hide their bad news.

6. CONCLUSION AND RECOMMENDATIONS

In Nigeria, the financial firms have four months (120 days) while non-financial firms have six months (180 days) after their balance sheet dates to publish their financial statements. Generally, there are more cases of late reporters (544 cases) than early and just-in time reporters (281 cases) on the aggregate and sectoral basis. Hence, there is a late financial reporting culture amongst public companies in Nigeria. The results of the test of hypothesis four using the t-test analysis show that the difference in the mean time lags between the early reporters and late reporters is statistically significant at the 5% level.

The study reveals that the public companies have late culture of financial reporting. The time lags of corporate financial reporting in Nigeria are considerably higher than most other countries of the world. The reason for the prolonged delays is not far fetched from the fact that the regulations on timeliness of corporate financial reporting permit it. The periods of 120 days (4 months) and 180 days (6 months) after the balance sheet dates expected of companies in the financial and non-financial sectors to publish their audited annual reports and accounts are quite too long. No wonder when the companies have these extensive periods to publish their accounts and could not still meet up, the delays become incomparable to the best practice internationally. We recommend that the regulatory bodies should reduce the existing mandatory reporting time to 90 days after their balance sheet dates for all companies regardless of whether they are financial firms or non-financial firms. We sincerely believe that regulatory pressure could prompt early and timely financial reporting. Furthermore, stiffer penalty should be stipulated for non-compliance with the new regulations by publishing audited annual reports and accounts on or before 90 days (3 months) after the balance sheet dates of publicly listed companies in Nigeria.

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